

YOUR BUDDY FOR UPSC PRELIMS - LAWXPERTSMV INDIA**INDIAN ECONOMY - SANKAR GANESH / SANJIV VERMA / RAMESH SINGH****CHAPTER 1 : NATIONAL INCOME**

1. How do we say a country that it is a largest economy in the world?

- It is based on the output produced by an economy,

2. What is an output?

- Out put implies aggregation of **monetary value** of all the **Goods and Services** produced in an economy in a **given time period**.

Here we need to tread with caution; Let's see an example :

I have produced wheat and transferred it for sale to you for 50 rs. And you, an owner of mill, have sold the flour produced from my wheat to Mr. X, who is an baker, for 100 rs. X produces bread from it. 20 bread packets were produced and sold at 200rs.

Now as we defined output as “**aggregation of monetary value of all the Goods and Services...**”

- Should we add 50rs + 100rs + 200 rs = 350 rs as output produced in an economy ?
No. Because this amounts to *double counting* we should only add the **FINAL** goods, NOT INTERMEDIATE GOODS.

- Out put implies aggregation of **monetary value** of all the “**FINAL**” **Goods and Services** produced in an economy in a **given time period**.

METHODS OF MEASURING NATIONAL INCOME :

1. Income method : if we the calculate the income of the factors of production.

2. Output / Product /Value added Method : If we calculate the output produced **from the** factors of production .

GDP : GROSS DOMESTIC PRODUCT

- Gross Domestic Product (GDP) is the value of the all *final* goods and services produced within the boundary of a nation during one year period.
- For India, this calendar year is from 1st April to 31st March.
- It is also calculated by adding national private consumption, gross investment, government spending and trade balance (exports-minus-imports)

USES OF GDP :

- It shows the “growth rate” of the economy ;
- It indicates the volume/size of the economy i.e, “quantitative” it doesn’t speak about “qualitative aspect” of the economy.
- Used by the IMF/WB in the comparative analyses of its member nations

Gross Domestic Product: GVA at basic prices + (product taxes including import duties – product Subsidies)

(GVA concept will be explained in the later pages)

Answer this question!

The national income of a country for a given period is equal to the

- (a) total value of goods and services produced by the nationals
- (b) sum of total consumption and investment expenditure
- (c) sum of personal income of all individuals
- (d) money value of final goods and services produced

Answer : d. UPSC 2013 Question.

GDP V. NDP

Net Domestic Product (NDP) is the GDP calculated after adjusting the weight of the value of ‘depreciation’. This is, basically, *net form* of the GDP, i.e., GDP minus the total value of the ‘wear and tear’ (depreciation) that happened in the assets while the goods and services were being produced.

NDP = GDP - Depreciation.

GROSS NATIONAL PRODUCT (GNP)

Gross National Product (GNP) is the GDP of a country added with its ‘income from abroad’. Here, the trans-boundary economic activities of an economy is also taken into account : which are *Private Remittances, Interest on External Loans, External Grants*.

GNP = GDP + Income from Abroad.

NET NATIONAL PRODUCT (NNP)

Net National Product (NNP) of an economy is the GNP after deducting the loss due to 'depreciation'.

$$\text{NNP} = \text{GNP} - \text{Depreciation} ; \text{GDP} + \text{Income from Abroad} - \text{Depreciation}$$

NEW BASE YEAR AND METHOD OF NATIONAL INCOME

Central Statistics Office (CSO), in January 2015, released the **new** and **revised** data of National Accounts :

1. *Base Year* was revised from 2004-05 to 2011-12.

2. *Methodology* of calculating the National Accounts has also been revised in line with the requirements of the *System of National Accounts (SNA)-2008*

CONSEQUENCES OF SUCH CHANGES :

1. **Headline growth rate** will now be measured by *GDP at constant market prices*, which will henceforth be referred to as 'GDP' (as is the practice internationally). Earlier, growth was measured in terms of growth rate in *GDP at factor cost and at constant prices*
2. Sector-wise estimates of Gross Value Added (GVA) will now be given at **basic prices** instead of factor cost.

EXPLANATION :

'*factor cost*' is the 'input cost' the producer has to incur in the process of producing something.

'*market cost*' is derived after adding the indirect taxes to the factor cost of the product, it means the cost at which the goods reach the market

GVA at basic prices :

- ✓ GVA - Gross Value added.
- ✓ Basic prices – Producer's price or cost of production.
- ✓ Buyer 's Prices : Price which includes cost of production/ Producer's price + Product taxes – Product subsidies.

GVA at basic prices = Output- Intermediate consumption. (take the same wheat example)

OR

GVA at basic Prices = CE + OS + CFC + Production taxes – Production Subsidies.

Let us see, how do we arrive at the above-mentioned formula.

1. Output is produced by whom ? Factors of production. As per government, 11 industries are included. (Not relevant)

2. What is an output?

Output includes the set of inputs material & services and value addition.

Output = Input material & Services + Value Added.

1. What is CE? CE – Compensation of employees (salary / remuneration to employees)

2. What is OS? Operating Surplus –in case of incorporated company / MI – mixed income in case of unincorporated company – **is the profit.**

3. What is CFC – Consumption of fixed capital / depreciation. Simply means, wear & tear of machines and buildings used for the purpose of making the product.

4. Production Taxes : Taxes paid in relation to production. Eg : Land Revenue for the building, Tax on profession etc..

5. Production Subsidies : Subsidies are received in relation to production.

Eg : Input subsidies to farmers...

NOTE : Production subsidies given by the government has to be subtracted from the production taxes given to the government by the producer to arrive at real value produced by the producer.

YOUR BUDDY FOR PRELIMS - LAWXPERTSMV INDIA**INDIAN ECONOMY - SANKAR GANESH / SANJIV VERMA / RAMESH SINGH****CHAPTER 2 : HUMAN DEVELOPMENT**

- 1. WHAT IS HUMAN DEVELOPMENT?** > It is a new approach for advancing human wellbeing. It is focused **on people and their opportunities and choices.**

Human development is all about human freedoms: freedom to realize the full potential of every human life, not just of a few, nor of most, but of all lives in every corner of the world—now and in the future.

ECONOMIC V. HUMAN : The basic difference between economic development and human development is that economic development entirely focuses on the increase of income whereas the human development believes in expanding and widening of all aspects of human life be it economic, social, political, cultural, etc. In economic aspect human development is one of the essential elements. The basic idea behind this is that it is the use of income and not the income itself that decides the human choices.

- 2. WHAT IS HDR** > The Human Development Report (HDR) is an annual report published by the Human Development Report Office of the **United Nations Development Programme (UNDP)**. This report uses the HDI Index as an indicator for the Human Development in a country.

- 3. WHAT IS HDI** > Human Development Index (HDI) = launched by Pakistani Economist Mahbub ul Haq and Indian Nobel laureate Amartya Sen in 1990

a) **FOR WHAT** > *To place people at the centre of the development process in terms of economic debate, policy and advocacy.*

b) **WHAT IT DOES** > It is a summary measure of human development.

- 4. ON WHAT BASIS COUNTRIES HDI WILL BE MEASURED?** HDI measures the average achievements in a country in **three basic dimensions** of human development:

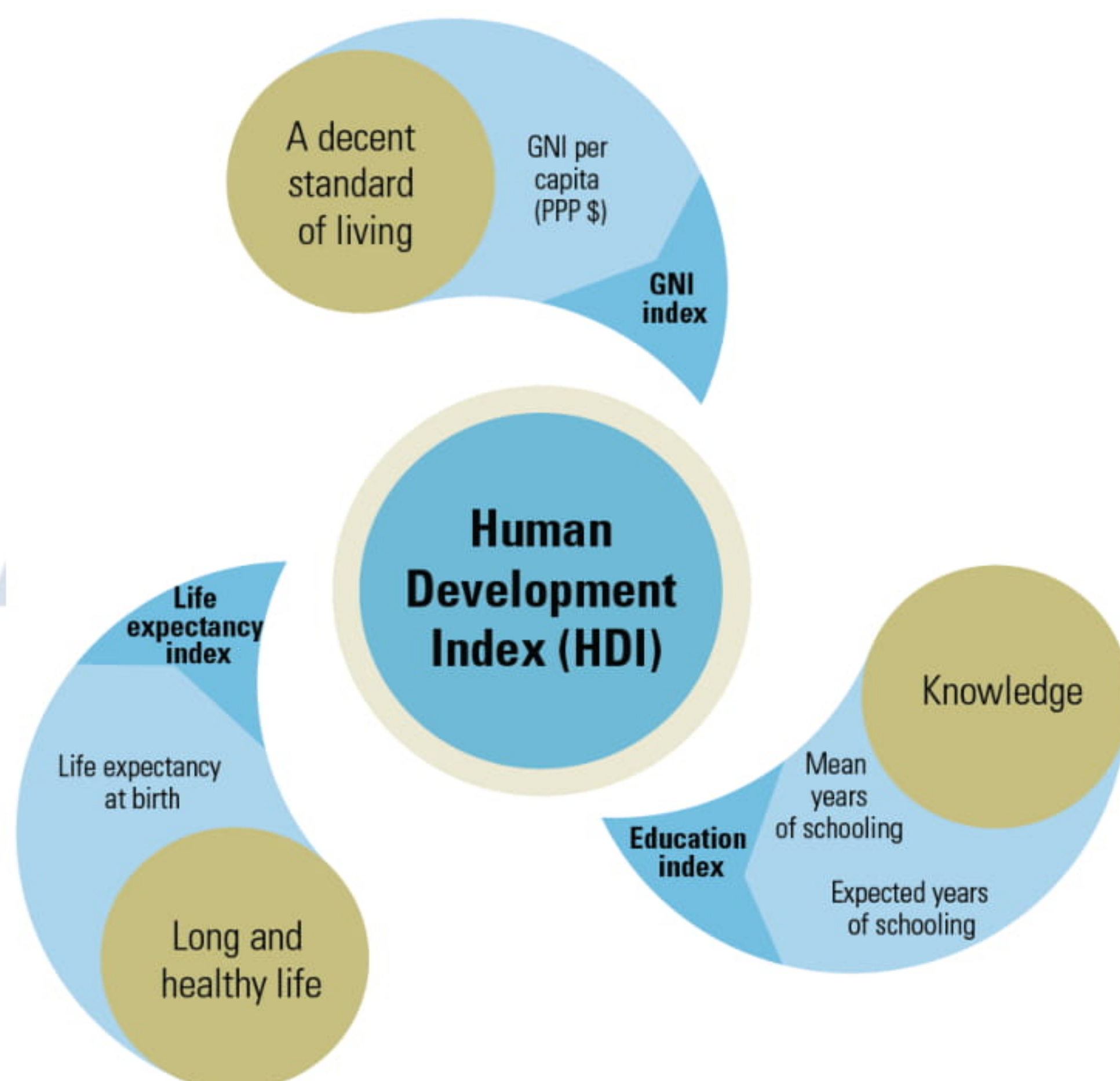
THREE BASIC DIMENSIONS OF HUMAN DEVELOPMENT

The 2010 Human Development Report revised the HDI formula using data and methodologies that were not available in most countries when the first HDI was published in the 1990 Human Development Report. The HDI was calculated in 2010 using the following indicators:

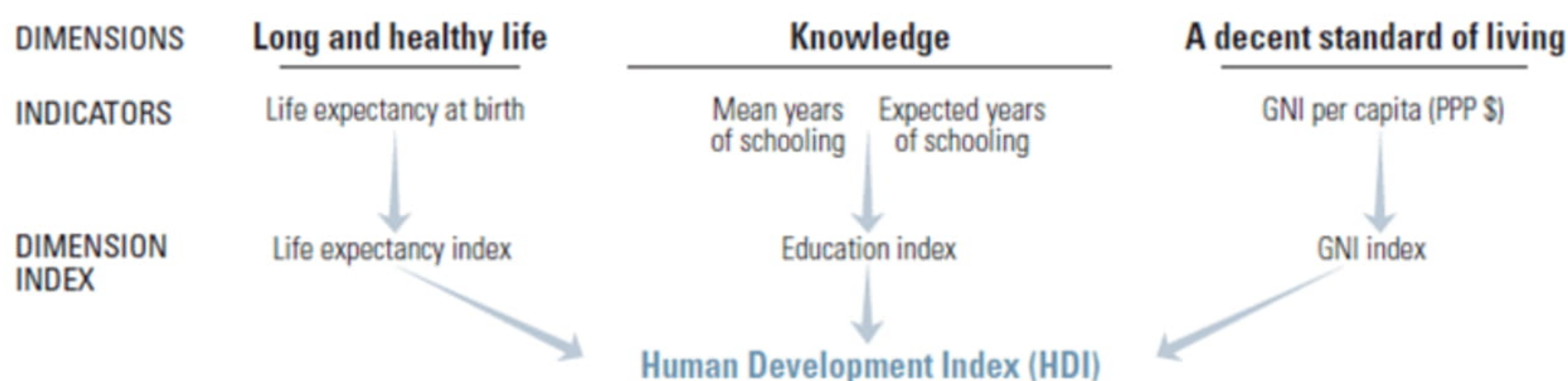
1. **Health - Life expectancy at birth**
2. **Education - expected years schooling for school-age children and average years of schooling in the adult population**
3. **Income - measured by Gross National Income (GNI) per capita (PPP US\$)**

The indicators of the three dimensions are calibrated and combined to generate an HDI score between zero and one. Countries are grouped into four human development categories or quartiles: very high, high, medium and low.

- A country is in the very high group if its HDI is in the top quartile,
- in the high group if its HDI is in percentiles 51–75,
- in the medium group if its HDI is in percentiles 26–50, and
- in the low group if its HDI is in the bottom quartile.



FOR MORE CLARITY ON CONCEPTS : SEE BELOW :



REPORTS SO FAR PUBLISHED

Human Development Reports 1990–2016

1990	Concept and Measurement of Human Development
1991	Financing Human Development
1992	Global Dimensions of Human Development
1993	People's Participation
1994	New Dimensions of Human Security
1995	Gender and Human Development
1996	Economic Growth and Human Development
1997	Human Development to Eradicate Poverty
1998	Consumption for Human Development
1999	Globalization with a Human Face
2000	Human Rights and Human Development
2001	Making New Technologies Work for Human Development
2002	Deepening Democracy in a Fragmented World
2003	Millennium Development Goals: A Compact among Nations to End Human Poverty
2004	Cultural Liberty in Today's Diverse World
2005	International Cooperation at a Crossroads: Aid, Trade and Security in an Unequal World
2006	Beyond Scarcity: Power, Poverty and the Global Water Crisis
2007/2008	Fighting Climate Change: Human Solidarity in a Divided World
2009	Overcoming Barriers: Human Mobility and Development
2010	The Real Wealth of Nations: Pathways to Human Development
2011	Sustainability and Equity: A Better Future for All
2013	The Rise of the South: Human Progress in a Diverse World
2014	Sustaining Human Progress: Reducing Vulnerability and Building Resilience
2015	Work for Human Development
2016	Human Development for Everyone

OTHER REPORTS

Inequality-adjusted HDI (IHDI)

MEANING : The Inequality-adjusted Human Development Index (IHDI) adjusts the Human Development Index (HDI) for inequality in distribution of each dimension across the population.