UNIT-I

NATIONAL INCOME

1. What do you mean by national income?

Ans:- National income refers to the total value of all goods and services produced within a country's borders over a specific period, typically one year. It includes the income earned by individuals, businesses and the government within the country.

Features of national income —

① Excessive Dependence Agriculture: One striking feature of India's national income is that a considerable proportion that is 18.3% of the national income is now being contributed by the agriculture sector.

(ii) Poor growth rate of GDP and per capita income: Poor growth rate of GDP and per capita income is another important features of national income of the country. The average annual growth rate of GDP in India was 5.2% during 1980-82 as compared to 9.1% for China and 5.7% of Indonesia.

(iii) Unequal distribution and poor standard of living: The distribution of national income in India is most unequal. Human Development Report shows that in 1993, richest 20% of total population shared 54.7% of the total income of the country.

(iv) Growing contribution of tertiary sector: Another striking feature of India's national income is that the contribution of tertiary sector has been increasing continuously over the years that is from 28.5% total national income in 1950-51, to 54.7% in 2017-18.

(v) Unequal Growth of Different sectors: In India, different sector are growth at unequal rates. During the period 1951-97, while the primary sector has recorded a growth rate of 2.9% but the secondary and tertiary sector recorded a growth rate of 6.3% and 7.1% respectively and in 2017-18, the same growth rates were 2.2%, 4.5% and 8.31% respectively.

(vi) Region Disparity :- Another striking feature of India's national income is its regional disparity. Among all the states, only states of the country have recorded a higher per capita income over the national figure.

(vii) Urban and Rural Disparity: Urban and rural disparity of income is another important features of our national income. The All India Rural Household survey shows that the level of income in urban areas is just twice that of the rural areas depicting a poor progress of rural economy.

(viii) Public and private sector: Another important feature of India's national income is that the major portion of it is generated by the private sector (75.8%) and the remaining 24.2% of the national income is contributed by the public sector.

2. Write a note on Income method of measuring national income.

Ans:- The income method of measuring national income calculate the total income earned by individuals and entities within a country's border over a specific period, typically one year. It aggregates sources of income to arrive at a comprehensive figure representing the economic activity within the nation.

This method comprises several components:

(i) Wages and salaries: This includes earnings from employment such as wages, salaries, bonuses and other forms of compensation paid to workers in exchange for their labor.

(ii) Rental income: Rental income encompasses the earnings generated from leasing out properties, including real estate, land, machinery, equipment and other assets.

(iii) Interest income: Interest income refers to the returns earned from investments in financial assets such as bonds, savings accounts, certificates of deposit and other interest bearing instruments.

(iv) Profits: Profits represents the surplus income generated by business after deducting expenses, including operating costs, taxes and depreciation. It includes both corporate profits and profits earned by unincorporated business such as sole proprietorship and partnerships.

(v) Dividend income: Dividend income comprises the distributions paid to shareholders by corporations out of their profits. It represents a portion of the company's earnings distributed to its investors.

(vi) Mixed income: Mixed income refers to the earnings of self-employed individuals, including freelances, entrepreneurs, and small business owners. It combines elements of both labour income and business profits.

The following precautions should be taken while calculating National Income—

(i) All kinds of transfer payments are not to be included in the National Income because no services are offered from such payments.

(ii) Windfall gains like income from lottery are not included in the National Income.

(iii) Income from illegal activities such as by way of gambling, smuggling etc do not a part of National Income.

(iv) Income from sale of second hand goods are not a part of National Income.

(v) Taxes like gift tax, wealth tax etc are not a part of National Income.

Following are the steps involved for calculating National Income by Income Method —

(i) Identification of producing units.
(ii) Classification of factor income.
(iii) Elimination of

3. Write a note on composition of national income in India.

OR

Write a note on sector contribution in India.

Ans- Sectoral contribution of national income depicts a clear about the composition or distribution of national income by industrial origin. Thus, it shows the contribution made by different sectors towards the national income of the country. In India, among the different sectors, the primary sector and more particularly agriculture still plays a dominant role in contributing the major portion of the national income of the country.

(i) Primary sector: The contribution of primary sector which is composed of agriculture, forestry, fishery and mining gradually declined from 56.4% of GDP in 1950-51 to 45.8% in 1970-71 and then finally to 17.2% in 2018-19. It is also interesting to look at the trend in the contribution of agriculture which is contributing the major share to the primary sector

(ii) Secondary sector: The secondary sector which is composed of manufacturing industries, constructions, electricity, gas and water supply increased its share of GDP from 15.0% in 1950-51 to 22.3% in 1970-71 and then to 28.4% in 2018-19. Among the major constituents of the secondary sectors, the share of manufacturing industries to GDP also increased from 11.4% in 1950-51 to 15.1% in 2012-19.

(iii) Tertiary Sector: The share of tertiary sector which is ~~contribut~~ constituted by trade, transport, storage, communications, banking, insurance, real estate, community and ~~ewa~~ personal service ~~ptae~~ gradually increased from 28.5% in 1950-51 to 31.8% in 1970-71 and then finally to 54.3% in 2018-19. Among the major components of tertiary sector, the share of transport, communication and trade also increased from 11.0% in 1950-51 to 19.1% in 2018-19.

4. What are the limitations of measuring national income?

Ans- The limitations of measuring national income are as follows:

(i) Exclusion of Informal Economy: National income calculations often overlook the informal sector, where a significant portion of economic activity occurs, leading to underestimation of total output.

(ii) Non-Market Transactions: Activities such as household work and volunteerism, which contribute to the economy but aren't monetized, are not included in national income measurements, leading to an incomplete picture of economic welfare.

(iii) Quality of Output: National income figures may not reflect the quality of goods and services produced, leading to inaccuracies in assessing overall economic well-being.

(iv) Externalities: Negative externalities like environmental degradation or positive externalities like education and healthcare may not be fully captured in national income measures, leading to misinterpretation of economic progress.

(v) Income Distribution: National income figures often mask income inequality, as they aggregate all income without ~~conside~~ considering distribution among individuals or households.

(vi) Asset Accumulation: National income calculations do not account for changes in wealth or asset accumulation, which are vital indicators of economic health and well-being.

(vii) Non-Market Production: Activities like self - subsistence farming or home production are not captured accurately in national income measurements, leading to distortions in understanding economic activity.

(viii) Underground Economy : Illegal or unreported economic activities, such as black market transactions, are not included in national income estimations, leading to underrepresentation of total economic output.

(ix) Technological Advancements : National Income calculations may not fully ~~acc~~ account for the value of technological advancements, leading to underestimation of productivity gains and economic growth.

(x) Globalization : In an increasingly globalized world, national income measures may not accurately reflect the true economic activity of a country, as production processes and income generation often involve international transactions and multinational corporations.

5. Write a note on expenditure method of measuring national income.

Ans:- The expenditure method of measuring national income calculates the total output of a country by summing up all expenditures on final goods and services within its borders over a specific period, typically a year. This approach is based on the idea that the total value of goods and services produced in an economy equals the total expenditures made on those goods and services. Here's how the expenditure method works:

(i) Consumption Expenditure (C): This includes spending by households on goods and services for consumption purposes, such as food, clothing, housing, healthcare and entertainment.

(ii) Investment Expenditure (I): Investment expenditure represents spending on capital goods like machinery, equipment, buildings and infrastructure by businesses, households and the government. It also includes changes in inventories.

(iii) Government Expenditure (G): This category includes all government spending on goods and services, including salaries of public employees, infrastructure projects, defense spending and social welfare programs.

(iv) Net Exports (NX): Net exports represent the difference between exports and imports. If exports exceed imports, it adds to the national income; if imports exceed exports, it subtracts from the national income.

The formula for calculating national income using the expenditure method is —

National Income = C + I + G + (X − M).

where:

C = Consumption expenditure

I = Investment expenditure

G = Government expenditure

X = Exports

M = Imports

The following precautions should be taken while calculating National Income by using expenditure method—

(i) Expenditure on second hands goods

shouldn't be ~~purchase~~ included as such goods are not a part of current flow of goods and services produced.

(ii) Expenditure on purchase of shares and bonds are excluded because it is not payment for goods, or services currently produced.

(iii) Government expenditure on all transfered payments such as scholarship, old age pension is excluded from total expenditure.

(iv) To ~~ra~~ avoid double counting expenditure on all final goods are taken and intermediate goods and services are excluded.

6. Write short notes on the following :

(a) Gross National Product at market price. (GNP mp)

Ans :- Gross National Product (GNP) at market price is a measure of the total value of all final goods and services produced by the residents of a country within a specific time period, typically a year, after deducting depreciation and adding net factor income from abor abroad.

(b) Gross Domestic product at market Price (GDPmp).

Ans!- Gross Domestic Product (GDP) at market price is a key economic indicator that measures the total monetary value of all final goods and services produced within a country's borders during a specific time period, typically a year or a quarter; It is one of the primary metrics used to gauge the size and health of an economy.

(c) Net National Product at market price. (NNPmp).

Ans!- Net National Product at market Price (NNP at market price) is a macroeconomic indicator that measures the net value of all goods and services produced by residents of a country within its borders, after accounting for depreciation, also known as capital consumption. It is calculated by subtracting depreciation from the Gross National Product (GNP) at market price.

④ Net Domestic Product at market price (NDPmp).

Ans:- Net Domestic Product at Market Price (NDPmp) is a macroeconomic indicator that measures the total value of all final goods and services produced within the country's borders during a specific time period, after deducting depreciation and indirect taxes and adding subsidies. It reflects the net value of economic output available for consumption and investment within the domestic economy. NDPmp is often used to gauge the overall economic performance and standard of living within a country.

⑤ Gross National Product at factor Cost (GNPfc).

Ans:- Gross National Product at factor cost (GNPfc) is a macroeconomic measure that represents the total market value of all final goods and services produced by the residents of a country within a given period of time; plus any net income earned from abroad; minus any income earned by foreign residents within the country. It focuses on the income earned by factors of production within the country's borders. GNPFC provides insight into the income generated by the nationals of a country, regardless of their location, and is used to assess a country's economic performance and wealth distribution.

(B) Gross Domestic product at factor cost (GDPFC).

Ans:- Gross Domestic Product at factor cost (GDPFC) is a macroeconomic indicator that measures the total market value of all final goods and services produced within a country's borders during a specific time period, taking into account only the income earned by factors of production within the domestic economy. It excludes any income earned from abroad by domestic residents and includes any income earned domestically by foreign residents. GDPFC is a key metric used to assess the overall economic activity and performance of a country.

(g) Net National Product at Factor cost (NNPFC).

Ans:- Net national product at factor cost (NNPFC) is a macroeconomic measure that reflects the net value of goods and services produced by the residents of a country after deducting depreciation and indirect taxes while adding subsidies. It represents the total income earned by the factors of production owned by a country's residents, both domestically and abroad, during a specific period. NNPFC provides insight into the overall economic welfare and income distribution within a country.

(h) Net Domestic Product at Factor Cost (NDPFC).

Ans:- Net Domestic Product at factor cost (NDPFC) is a macroeconomic indicator that measures the net value of all final goods and services produced within a country's borders during a specific time period, after deducting depreciation and indirect taxes and adding subsidies, but considering only the income earned by factors of production within the domestic economy. NDPFC reflects the net value of economic output available for consumption and investment within the domestic economy, while accounting fore the costs of production. It is a key measure used to assess the overall economic performance and standard of living within a country.

7. What are the key macro economic variables?

Ans:- Key macro economic variables are fundamental indicators used to analyse the overall performance and health of an economy. Some of the important ones include:

(i) Gross Domestic Product (GDP): The total value of all goods and services produced within a country's borders within a specific time period, usually measured quarterly or annually.

(ii) Unemployment Rate: The percentage of the labour force that is unemployed and actively seeking employment. It indicates the health of the labor market.

(iii) Inflation Rate: The rate at which

the general level of prices for goods and services is rising, measured as an annual percentage increase in the Consumer Price Index (CPI) or Producer Price Index (PPI).

(iv) <u>Interest Rates</u>: The cost of borrowing money, typically set by a country's central bank. Changes in interest rates can affect consumption, investment, and inflation.

(v) <u>Exchange Rates</u>: The value of one currency in terms of another currency. Exchange rates influence international trade and capital flows.

(vi) <u>Government Budget Deficit / Surplus</u>: The difference between government spending and revenue in a given period. A deficit occurs when spending exceeds revenue, while a surplus occurs when revenue exceeds spending.

(vii) <u>Trade Balance</u>: The difference between a country's exports and imports of goods and services. A positive balance occurs when exports exceed imports.

while a negative balance occurs when imports exceeds exports.

These variables are closely monitored by policymakers, economists, businesses and investors to assess economic performance, make informed decisions, and predict future trends.

8. What are the static macro economic analysis?

Ans :- Static macroeconomic analysis examines an economy at a particular point in time, focusing on its current state rather than changes over time. It provides a snapshot of key economic variables without considering their dynamic interactions or how they evolve over time. In static analysis, variables such as GDP, inflation rate, unemployment rate and others are examined within a specific time frame, usually a single period or a particular year.

This approach allows economists to assess the current health of the economy and identify any existing imbalances or inefficiencies. For example, if the unemployment rate is high and inflation is low, it may indicate a stagnant or underperforming economy. Conversely, low unemployment and high inflation could suggest an overheated economy.

Static analysis is valuable for understanding the immediate impact of policy changes or external shocks on the economy. However, it has limitations, such as overlooking the dynamic nature of economic variables and failing to capture long-term trends or structural changes. To address these limitations, economists often combine static analysis with dynamic models to gain a more comprehensive understanding of economic phenomena and make more accurate predicts about future outcomes.

9. What are the importance of national income studies?

Ans:- National income studies play a crucial role in understanding and evaluating the economic health and performance of a country. There are several key reasons why they are important:

(i) Measure of Economic Growth: National income studies, particularly through metrics like Gross Domestic Product (GDP), provide a comprehensive measure of a country's economic growth over time. This helps policy makers, businesses and investors gauge the pace and direction of economic development.

(ii) Policy Formulation and Evaluation: Governments use national income data to formulate and assess economic policies. For instance, fiscal policies such as taxation and public spending are informed by the revenue and expenditure figures derived from national income studies. Similarly, monetary policies are influenced by data on inflation and output.

(iii) Standard of Living: National income studies help assess the standard of living within a country by measuring the total output of goods and services available to its residents. Higher national income generally correlates with higher standards of living, although it doesn't capture income distribution within the population.

(iv) International Comparisons: National income studies allow for comparisons of economic performance between countries. Metrics like GDP per capita facilitate cross-country comparisons of living standards and economic development levels.

(v) Investment Decisions: Businesses and investors rely on national income data to make investment decisions. Understanding the economic growth prospects and trends within a country helps businesses allocate resources efficiently and identify potential markets.

(vi) Forecasting and Planning: National income studies provide valuable data for economic forecasting and long-term planning. By analyzing past trends and current conditions, economists and policymakers can anticipate future economic developments and plan accordingly.

(vii) Monitoring Economic Stability: National income studies help monitor economic stability by tracking indicators such as inflation, unemployment and balance of payments. These indicators provide insights into potential risks and vulnerabilities within the economy.

Overall, national income studies serve as a foundational tool for understanding, managing, and improving economic performance at both the national and international levels.

10. Write a note on value added method of measuring national income.

Ans: The value-added method assesses

national income by calculating the value added by each economic agent in the production process. This method emphasizes the additional value created by each stage of production, ultimately arriving at the total value generated within an economy.

To implement the value-added method, economists start by considering the value of outputs produced by each industry or sector. They then subtract the value of intermediate goods and services used in the production process to avoid double-counting. Intermediate goods are those consumed or transformed in the production of final goods and services.

The core idea is that each stage of production adds value to raw materials or intermediate goods. For example, a manufacturer purchases raw materials and adds value by transforming them into finished products. The value added by the manufacturer is calculated by subtracting the cost of raw materials from the final selling price of the products.

Similarly, retailers add value by providing distribution channels and making products available to consumers. Their value added is calculated as the difference between the selling price of goods and the ~~cost of goods~~ purchased from wholesalers or manufacturers.

By summing up the value added at each ~~state~~ stage of production across all industries within an economy, economists obtain the total value added or gross value added (GVA). This represents the contribution of various sectors to the overall economy.

The value-added method provides a comprehensive picture of economic activity within a country while avoiding the issue of double-counting inherent in other methods like the income or expenditure approaches. It also allows for the comparison of value added across different industries, providing insights into sectoral contribution to GDP.

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Moreover, the value added method is particularly useful for analyzing the structure of an economy and identifying sectors that are driving growth or facing challenges. Policymakers rely on this method to formulate strategies for promoting economic development, such as incentivizing value-added activities or addressing bottlenecks in specific industries.

Overall, the value-added method offers a detailed and systematic approach to measuring national income, providing valuable insights for policymakers, economists and businesses alike