# Meta data of E- Content (Pre production)

| S. N. | AREA OF MATA DATA | TO BE FILLED BY CONTENT GENERATOR(S) |
|---|---|---|
| 1 | Topic | National Income and Related Aggregates |
| 2 | Subject | Economics |
| 3 | Topic connected which area of subject? | Macroeconomics |
| 4 | Class/ Level | XII |
| 5 | Objectives | To mention the various related aggregates<br>To explain the conversions of one variable to another<br>To help the students test his understanding of the conversions. |
| 6 | Summary | National Income is defined as the value of final goods and services produced by normal residents of a country in an accounting year. The inter-relationship between different aggregates of GDP such as $GVO_{MP}$, GNP, NNP etc. are shown with equations and a flow-chart.<br>Student activity on conversion of aggregates is given. |
| 7 | Key Words | Gross, Net, Depreciation, Net Factor Income From Abroad , National , Domestic, Market Price , Factor Cost . |
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# National Income and Related Aggregates

There is a continuous flow of production in an economy which arises out of production of commodities i.e. goods and services by various large and small enterprises. These goods and services are sold to the consumers, who may be an individual or an enterprise. These purchased goods and services might be for final use or for use in further production.

An item that is meant for final use and will not pass through any more stages of production or transformation is called a **final good**. It is called final as after being sold, it passes out of the active economic flow and will not undergo any transformation at the hands of the producer. eg:- shirts, tables etc. **Final goods may be consumption goods or capital goods**. Final goods are those goods which are used for consumption or investment.

Some part of the total production in the economy comprises of **intermediate goods**- mostly used as raw material or inputs for production of other commodities. Eg:- steel sheets used for making automobiles.

Since each of these commodities is produced for sale, the sum total of the monetary value of these diverse commodities gives us a measure of final output.

## National Income is defined as the value of all **final goods** and services **produced** by the **normal residents** of a country in an **accounting year**. **National Income is the Net National Product at Factor Cost.**

**Normal Residents** of a country are those who normally reside in the country and their centre of economic interest lies in the country. They may be nationals or non- nationals.
In India, **Accounting Year** is the financial year from 1st April of current year to 31st March next year. This shows National Income is a flow concept.
National Income does not include intermediate goods separately as value of final goods already includes the value of intermediate goods that have entered into their production as inputs.
**Produced goods** are those goods which are currently produced as distinct from gifts and other transfer receipts.

## Related Aggregates of National Income

**Gross Investment** is that part of final output which comprises of capital goods. Examples include machines, implements, office spaces, infrastructure like roads etc. Significant part of the current output of capital goods goes in maintaining or replacing part of the existing stock of capital goods and does not add to the existing stock of capital goods. The subtraction of the

value of this part from gross investment gives **Net Investment**.

**Net Investment= Gross Investment- Depreciation**

**Gross Domestic Product (GDP)** measures aggregate production of final goods and services taking place within the domestic economy during a year.

But this includes the factor income earned by the factors of production of the rest of the world employed in the domestic economy and at the same time does not include the factor income earned by the domestic factors of production employed in the rest of the world. The macroeconomic variable taking into account such additions and subtractions is called **Gross National Product (GNP)**.

**Net Factor Income from Abroad**= Factor income earned by the domestic factors of production employed in the rest of the world- Factor income earned by the factors of production of the rest of the world employed in the domestic economy.

**GNP= GDP+ Net Factor Income from Abroad**

Since depreciation does not form part of anybody's income, we deduct depreciation from GNP to obtain **Net National Product (NNP)**.

**NNP = GNP- Depreciation**

All the above variables are evaluated at market prices which includes indirect taxes as well. With the imposition of indirect taxes on goods and services, their prices go up. We need to deduct this component from **NNP evaluated at market prices (NNP$_{MP}$)** to calculate that part of NNP which accrues to the factors of production. Similarly, we need to add the Subsidies granted by the government on the prices of some commodities to NNP$_{MP.}$ The measure thus obtained, is called **Net National Product at factor cost (NNP$_{FC}$) or National Income (NI)**.

**Net Indirect Taxes= Indirect Taxes- Subsidies**

**NNP$_{FC}$ = NI= NNP$_{MP}$- (Indirect Taxes- Subsidies)**

Thus, there are several aggregates related to National Income depending on inclusion of Depreciation, Net Indirect Taxes,  Intermediate Consumption etc. These are as follows:

**RELATED AGGREGATES:**
1)Gross Domestic Product at market price (GDP$_{MP}$)
2)Gross Domestic Product at factor cost (GDP$_{FC}$)
3)Gross National Product at market price (GNP$_{MP}$)
4) Gross National Product at factor cost (GNP$_{FC}$)
5)Net Domestic Product at market price (NDP$_{MP}$)

6) Net Domestic Product at factor cost (NDP$_{FC}$)

7) Net National Product at market price (NNP$_{MP}$)

8) Net National Product at factor cost (NNP$_{FC}$)

## CONVERSIONS

**1) Gross= Net + Depreciation**

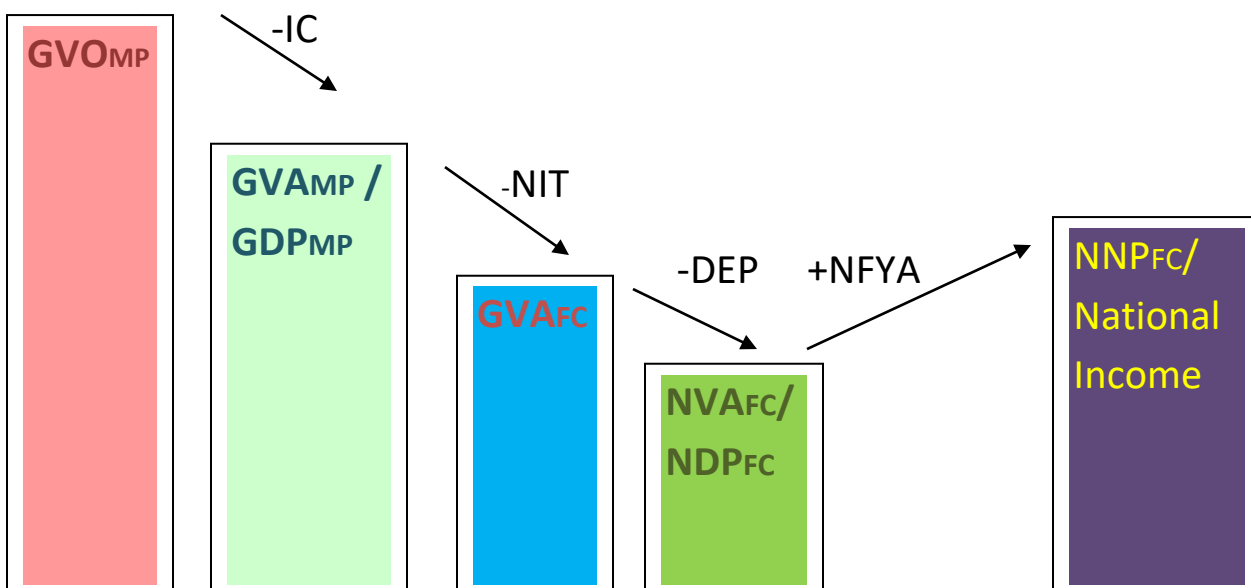**2) Market Price (MP)= Factor Cost (FC) +Net Indirect Taxes (NIT)**

**Net Indirect Taxes = Indirect Taxes- Subsidies**

**3) National= Domestic + Net Factor Income from Abroad (NFYA)**

**NFYA= Factor income earned by the domestic factors of production employed in the rest of the world- Factor income earned by the factors of production of the rest of the world employed in the domestic economy.**

**4) Value of Output (VO)= Value Added(VA) + Intermediate Consumption (IC)**

**5) Value added is the same as Domestic Product.**

GVO$_{MP}$

-IC

GVA$_{MP}$ / GDP$_{MP}$

-NIT

GVA$_{FC}$

-DEP    +NFYA

NVA$_{FC}$/ NDP$_{FC}$

NNP$_{FC}$/ National Income

# STUDENT ACTIVITY

**Q.1.) Pick the correct choice from the box:-**

a) $GDP_{MP} = GVO_{MP}$ | +/- | IC

b) $NNP_{FC} = NDP_{MP}$ | +/- | NFYA | +/- | NIT

c) $GVO_{MP} - IC - NIT =$ | $GVA_{FC}/NNP_{FC}/NDP_{MP}$ |

d) $GDP_{FC} = GDP_{MP}$ | +/- | IT | +/- | SUBSIDIES

**Q.2.) State whether the following statements are true or false:**

a) $GVO_{MP} - IC = GDP_{FC}$

b) $NNP_{FC}$ is the same as national income.

c) $NVA_{FC} + NIT = GNP_{MP}$

d) $GDP_{MP} - DEP = NDP_{FC}$

## ANSWER KEY OF QUESTION 1

a) (-)
b) (+), (-)
c) $GVA_{FC}$
d) (-) , (+)

## ANSWER KEY OF QUESTION 2

a) False    b) True    c) False    d) False