Lucknow IAS Academy

National Income NCERT Summary (Class X to Class XII)

National Income

National Income

National Income refers to the complete value of the final goods and services produced by any country during its financial year.

Thus, it is the consequence of all economic activities that are running in any country during the period of one year. It is valued in terms of money.

Evolution of India's National Income

- The first attempt to calculate the National Income was made in 1868 by Dadabhai Naoroji in his book 'Poverty and Un-British Rule in India', who estimated the Per Capita Income at 20.
- Another effort was made by Dr. Vijayendra Kasturi Ranga Varadraja Rao, who was the first to use scientific approach to calculate National Income. In 1925 to 1929, he estimated Per Capita Income at 76.
- The Government of India appointed a National Income Committee under the Chairmanship of Dr. PC Mahalanobis. This committee gave its first report in 1951 and final report in 1954. The committee estimated National Income of 8650 crore and Per Capita Income of ₹ 246.50.

Basic Terms used in National Income and Accounting

- **Final Goods** Such goods that are meant for final use and will not pass through any more stages of production or transformations.
- **Intermediate Goods** Such goods are used by other producers as material inputs. These are mostly used as raw material or inputs for production of other commodities.
- **Depreciation** It represents how much of an assets value has been used. It is an annual allowance for wear and tear of capital goods. In other words, it is the cost of the goods divided by the number of years of its useful life.
- **Market Price** It refers to the actual transacted price and it includes indirect taxes such as excise duty, Value Added Tax (VAT), service tax, customs duty, etc and government subsidies.
- **Factor Cost** It means the total cost of all factors of production consumed or used in producing a good or service. It includes government grants and subsidies, but it excludes indirect taxes.
- **Purchasing Power Parity (PPP)** It is an analysis metric to compare economic productivity and standards of living between two different countries. The PPP exchange rates are constructed to ensure that the same quantity of goods and services are priced equivalently across countries.

- **Base Year** It is the year against which the performance of an index is measured. It is also called the reference year.
- Hindu Growth Rate Professor Rajkrishna, an Indian economist, coined the term 'Hindu Growth Rate'. The Hindu rate of growth is a term referring to the low annual growth rate of the planned economy of India before the liberalisation of 1991.

Calculation of National Income

National Income (NI) measures the net value of goods and services produced in a country during a year and it also includes Net Factor Income from Abroad (NFIA).

National Income measures the productive power of an economy in a given period to turn out goods and services for final consumption. In India, National Income estimates are related to the financial year. (1st April to 31st March).

According to the National Income Committee (1949), National Income estimate measures the volume of commodities and services turned out during a given period without duplication.

National Income =C+I+G+(X-M)

Where, C= Total Consumption Expenditure

I= Total Investment Expenditure

G= Total Government Expenditure

X= Export, M = Import

Various Measures of National Income

Economists use many methods to study National Income. Few of them are as follows:

1. Gross Domestic Product (GDP)

It measures the monetary value of all the final goods and services taking place within the domestic territory (within the borders of a country) during a year.

GDP-C+I+G

Where, C= Total Consumption Expenditure
I= Total Investment Expenditure
G= Total Government Expenditure

GDP at Market Price (GDP_{MP})

It refers to the total value of all the goods and services at market price produced during a year within the geographical boundaries of the country.

• Market price refers to the actual transacted price and it includes indirect taxes such as excise duty, VAT, GST, customs duty, etc and government subsidies. That's why the GDP_{MP} (in ₹) has gradually increased in the last decades.

$$GDP_{MP} = GDP_{FC} + (\text{Indirect Taxes} - \text{Subsidies})$$

GDP at Factor Cost GDP_{FC} :

GDP at factor cost is the total value of goods and commodities produced in a year in a country by its all production units (factory level). It includes government grants and subsidies, but it excludes indirect taxes.

$$GDPf_{FC} = GDP_{MP} - \text{Indirect Tax} + \text{Subsidy}$$

Calculation of GDP In India

GDP in a country is usually calculated by the National Statistical Agency, which compiles the information from a large number of sources. In the case of India, it is the National Statistics Office (NSO), which estimates GDP. The international standards for measuring GDP are obtained from the System of National Accounts, 1993, compiled by the International Monetary Fund (IMF), the European Commission (EC), the Organisation for Economic Cooperation and Development (OECD), the United Nations (UN) and the World Bank.

2. Gross Value Added (GVA)

In 2015, India opted to make major changes to its compilation of national accounts and decided to bring the whole process into conformity with the United Nation's System of National Accounts (SNA) of 2008.

As per the SNA, **GVA is defined as the value of output minus the value of intermediate consumption and is a measure of the contribution to growth made by an individual producer, industry or sector.**

It provides the rupee value for the number of goods and services produced in an economy after deducting the cost of inputs and raw materials that have gone into the production.

$$\text{Gross Value Added} = GDP + \text{Subsidies on Products} - \text{Taxes on Products}$$

Earlier, India had been measuring GVA at 'factor cost' till the new methodology was adopted, in which GVA at 'basic prices' became the primary measure of economic output.

GVA at basic prices will include production taxes and exclude production subsidies. GVA at factor cost included no taxes and excluded no subsidies.

The base year from 2004-05 has also been shifted to 2011-12.

3. Gross National Product (GNP)

It counts all the output of the residents/nationals of a country. So, if an Indian owned company has a factory in the United Kingdom, the output of that factory would be included in UK GDP, not in Indian GDP.

However, while measuring GNP, the output of the Indian owned factory in the UK would be included in India's GNP Thus, while calculating GNP, the Net Factor Income from Abroad will be included.

Where,

$$GNP_{(Fc/MP)} = GDP_{(Fc/MP)} + X - I$$

X = Income Earned and Received by Indians Working Abroad

I=Income Earned and Received by Non-Indians in India.

4. Net Domestic Product (NDP)

- If the depletion of the capital stock (Depreciation), is subtracted from GDP, Net Domestic Product (NDP) is obtained. The difference between Gross and Net Domestic Product occurs because of depreciation.
- In terms of value addition, the summation of Net Value Added (NVA) of all firms is called Net Domestic Product (NDP).

$$NDP_{(FC/MP)} = \text{Gross Domestic Product}_{(FC/MP)} - \text{Depreciation}$$

5. Net National Product (NNP)

If we deduct depreciation from GNP, the measure of aggregate income will give NNP.

$$NNP_{(FC/MP)} = \text{Gross Domestic Product}_{(FC/MP)} - \text{Depreciation}$$

NNP at factor cost gives us the Real National Income of India.

6. Per Capita Income (PCI) Per Capita Income (PCI) measures the average income earned per person in a given area (city, region, country, etc.) in a specified year.

It is calculated by dividing the area's total income by its total population. Per Capita Income is national income divided by population size.

Per Capita Income (PCI) = National Income/Total Population

7. Green Gross Domestic Product (GGDP)

- It is an index of economic growth which takes into account the effects of that growth on the environment in addition to a Country's convetional GDP. Green GDP accounts for the expenses associated with climate change and monetizes the loss of biodiversity.
- Net natural capital consumption, which accounts for resource depletion, environmental deterioration, and activities for protecting and restoring the environment, must be deducted from traditional GDP in order to calculate green GDP.

Various Methods of Measuring National Income

According to Simon Kuznets, National Income Accounting of a country is calculated by the following three methods:

1. Product Method or Value-Added Method

This method of National Income Accounting calculates the aggregate value of final goods and services produced in a year.

GDP= Value of Output-Intermediate Consumption

The Gross Domestic Product (GDP) of an economy is arrived at by measuring the aggregate value of goods and services produced in a year. Further deducting the aggregate amount of depreciation, across all firms in an economy, gives us the Net Domestic Product (NDP).

2. Income Method

In this method, a sum of net income earned by working people in different sectors and commercial enterprises is obtained. Incomes of both categories of people, tax-paying and non-tax-paying, are added to obtain National Income.

It is calculated by measuring the aggregate level of income, rent, interest and profits by the respective factors of production of an economy.

National Income (NI) = (Total rent-Income from land) +(Total wages-Income from labour) + (Total interest - Income from capital) + (Total profit-Income from entrepreneur).

3. Consumption Method

- In this method, income is either spent on consumption or saved.
- Hence, National Income is the addition of total consumption and total savings. It is also called the Expenditure Method.

NI= Total Consumption Expenditure + Total Savings

Organisations Associated with National Income Calculation in India

Central Statistical Organisation (CSO)

It is a governmental agency in India under the Ministry of Statistics and Programme Implementation responsible for coordination of statistical activities in India, and evolving and maintaining statistical standards.

National Sample Survey Office (NSSO)

The NSSO was established in 1950 on the recommendation of Dr. PC Mahalanobis, to conduct surveys on household consumer expenditure and employment and unemployment. The NSSO has four divisions, including the Survey Coordination Division (SCD), which is located in New Delhi.
However, In 2019, the NSSO merged with the Central Statistical Office (CSO) to form the National Statistical Office (NSO).

National Statistical Office (NSO)

The government has merged the Central Statistical Organisation and National Sample Survey Organisation under the Ministry of Statistics and Programme Implementation (MOSPI) into a single entity on 23rd May, 2019.

National Statistical Commission (NSC):

- The National Statistical Commission (NSC) is an autonomous body in India that was established on June 1, 2005 based on the recommendations of Rangarajan Committee (2000) to reduce the problems faced by statistical agencies in the country in relation to collection of data.
- The NSC's mandate is to develop policies, priorities, and standards for statistical matters. It also serves as the country's nodal and empowered body for all core statistical activities.

Lucknow IAS Academy

LiA

Join our telegram channel