IIPA 2022

Chapter 5: Aggregates of National Income – 2

Short Answers

CSM 05: Economic and Social Development-Sustainable Development, Poverty, Inclusion

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This chapter contains:

- **GDP at Factor Cost (GDP-FC)**
- **Net Domestic Product at Market Prices**
- **NDP at Factor Cost (NDP-FC)**
- **Gross National Product at Market Prices**
- **Gross National Product at Factor Cost**
- **Net National Product at Market Prices (NNP-MP)**
- **NNP at Factor Cost (NNP-FC)**
- **GVA at the Market price**
- **GVA at basic prices**

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1 GDP at Factor Cost (GDP-FC)

Gross domestic product (GDP) at factor cost is GDP at market prices minus net indirect taxes. The money value of output produced within a country's domestic limits in a year, as received by the factors of production, is measured by GDP at factor cost. In the base year 2004-05 the headline GDP is GDP at factor cost. This article will explain to you the concepts related to the **GDP at Factor Cost (GDP-FC)** which will be helpful in Indian Economy preparation for the IAS exam.

1.1 GDP at Factor Cost (GDPFC)

- **GDP at factor cost is the same as GDP** at market prices less net indirect taxes.
- GDP at factor cost measures the money worth of output produced within a country's domestic constraints in a year as received by the factors of production.
- **Factor cost** might have been used to calculate GDP at market prices, but Indian GDP was presented as GDP at factor cost in the base year 2004-05.
- To obtain **GDP at market price,** indirect taxes were added and subsidies were deducted from factor cost.
- Currently in the base year 2011- 12, headline GDP is now GDP at market prices.
- **Gross Value Added (GVA)** at basic prices is used to calculate GDP at market prices.

1.2 Significance

- **GDP at factor cost** represents what a **producer receives** from industrial activity.
- This can be broken down into several components, including wages, profits, rents, and capital, which are all **well-known production variables.**
- Aside from these expenses, producers may have to pay property tax, stamp taxes, and registration fees, among other things.
- Similarly, producers may receive production-related subsidies, such as input subsidies for farmers and small businesses (not food or petrol subsidies that you get on the final product).
- It's worth noting that just the taxes and subsidies on intermediate inputs have been modified.
- **Gross value added (GVA)** at basic prices will now be used instead of **GDP at factor cost.**
- **Production taxes,** such as **property tax**, are added to GDP at factor cost, and subsidies are removed from GDP to arrive at the new gross value added (GVA) at basic prices.

1.3 Conclusion

Using the old definition and base year of 2004-05, India's GDP growth in 2012-13 and 2013-14 was 4.5 percent and 4.7 percent, respectively. The new Indian GDP statistic, on the other hand, puts GDP growth at 5.1 percent in 2012-13 and 6.9 percent in 2013-14. The change to this way of calculating GDP has brought the method up to pace with those used by international organisations such as the IMF and the World Bank.

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2 Net Domestic Product at Market Prices (NDPMP)

Net domestic product (NDP) at market prices is **gross domestic product (GDP)** minus fixed capital consumption (abbreviated as NDP). Unlike GDP, NDP accounts for the depreciation of fixed assets (such as computers, buildings, transportation equipment, machinery, and so on) employed in the manufacturing process. Depreciation is subtracted from the gross domestic product to arrive at NDP. This article will explain to you the concepts related to the **Net Domestic Product at Market Prices (NDPMP)** which will be helpful in Indian Economy preparation for the UPSC IAS exam.

2.1 Net Domestic Product at Market Prices (NDPMP)

- The annual measure of a country's economic production, corrected for depreciation, is known as the **net domestic product (NDP).**
- Depreciation is subtracted from the **gross domestic product (GDP)** to arrive at this figure.
- **NDP, along with GDP**, **GNI, disposable income, and personal income**, is one of the primary indicators of economic growth.
- An increase in NDP indicates improving economic health, whereas a decline indicates stagnation.
- NDP accounts for capital that has deteriorated over the course of the year as a result of the degradation of homes, vehicles, or machinery.
- The amount needed to replace those depreciated assets is frequently referred to as capital consumption allowance, and it is accounted for as depreciation.
    - **NDP = GDP – Depreciation.**

2.2 Significance

- The value of depreciation of national capital assets such as machinery, houses, and cars is subtracted from the **gross domestic product (GDP)** to arrive at the **net domestic product (NDP)**.
- Other considerations such as asset obsolescence and complete destruction are also taken into account by the NDP. Capital consumption allowance is another term for depreciation.
- If a country's capital stocks are not replaced as a result of depreciation, the country's **GDP falls.**
- It is considered favourable for an economy if the gap between **GDP and NDP narrows or closes**. It also denotes a state of economic equilibrium. A bigger disparity between **GDP and NDP,** on the other hand, indicates an increase in the value of obsolescence.
- Such a rise, along with a decline in the value of the capital stock, suggests economic stagnation.
- A rising NDP indicates a thriving economy, whereas a falling NDP indicates stagnation.

2.3 Conclusion

NDP, along with GDP, GNI, disposable income, and personal income, is one of the primary indicators of economic growth. Though GDP is usually used to gauge a country's economic health, NDP considers the rate at which capital assets degrade and need to be replaced. This is critical since failure to respond would result in a reduction in the country's GDP.

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3 NDP at Factor Cost (NDP-FC)

NDP at factor cost is the income earned by the factors in the form of wages, profits, rent, interest, etc., within the domestic territory of a country. "The sum total of net values added by all producers in the country's domestic territory throughout an accounting year is the **net domestic product at factor cost**." This article will explain to you the concepts related to the **Net Domestic Product at Factor Cost (NDP-FC)** which will be helpful in the Indian Economy preparation for the UPSC IAS exam.

3.1 Net Domestic Product at factor Cost – Definition

According to Hanson, "Net domestic income is the income generated in the form of wages, rent, interest and profit in the domestic territory of a country by all the producers (normal residents and non-residents) in an accounting year."

In the words of Peterson, "The net domestic product at factor cost is the sum total of net values added by all the producers in the domestic territory of the country during an accounting year."

3.2 NDP at Factor Cost – Constituents

1. **NDP at Factor Cost:** Except for net indirect taxes, NDP at Factor Cost comprises all parts of NDP at the market price of net value-added. The value-added at factor cost is equivalent to the NDP at factor cost.

NDP AT FACTOR COST = NDP AT MARKET PRICE - Indirect Cases + Subsidies

2. **Net Domestic Factor Income:** Wages, rent, interest, and profit received by the factors of production are the components of net domestic factor income. In India, net domestic factor income includes self-employed mixed-income.

3.3 What is the difference between NDP at market price and NDP at factor cost?

NDP at Market price	NDP at Factor cost
• The difference between net national product at market price and net factor income from abroad is referred to as net domestic product at market price. • Gross national product at	• The income earned by factors in the form of wages, earnings, rent, interest, and so on within a country's domestic territory is referred to as Net Domestic Product at Factor Cost (NDP at FC). It also includes 1. reserve funds or corporate savings of firms 2. corporation and other direct taxes

market price minus depreciation equals Net national product 10 at market price. • Net national product at market price − Net factor income from overseas = Net domestic product at market price.	3. mixed income of self-employed 4. profits from the government, enterprises 5. property income of the government, and 6. savings of non-departmental enterprises, in addition to the four remunerations listed above.

3.4 Conclusion

NDP at factor cost is the gross domestic product. It refers to the entire amount of factor income created within a country's domestic territory during the course of an accounting year.

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4 Gross National Product at Market Prices (GNPMP)

GNP at market price is the market value of all final goods and services produced in a country's domestic territory by ordinary citizens during an accounting year, including net factor income from abroad. **GNP** is the most fundamental concept in national income accounting. This article will explain to you the concepts related to the **GNPMP** which will be helpful in Indian Economy preparation for the IAS exam.

4.1 Gross National Product at Market Prices (GNPMP)

- The market value of all final goods and services produced in a country's domestic territory by normal citizens during an accounting year, including net factor income from overseas, is defined as **GNP at market price.**
- GNP is the most fundamental concept in national income accounting.
    - **GNP (MP) = GDP (MP) + Net factor income from abroad**
- **GNP is a subset of GDP**. While GDP confines its economic analysis to the country's physical borders, GNP broadens it to include the net abroad economic activity carried out by its citizens.
- **GNP is an economic concept** since it comprises the productive activities of both domestic and international people of a country.
- GNP is based on ordinary residents, while GDP is based on domestic territory.

4.2 Significance

- The **GNP** measures how much a country's inhabitants contribute to its economy. It takes citizenship into account, regardless of where the property is located.
- Foreign residents' income earned within the country is not included in the **GNP.**
- **GNP** also excludes foreign citizens' and enterprises' revenue earned in India, as well as products created in India by international corporations.
- **GNP (MP) and GDP (MP)** differs on the basis of **Net Factor Income from Abroad**.
- The difference between the factor income earned from abroad by normal residents of a nation and the factor income earned by non-residents of that country is known as "net factor income from abroad."
- **GNP (MP) includes all GDP (MP)** components as well as net factor income from other countries.

4.3 Conclusion

The **Gross National Product (GNP)** at market price accounts for investments made by enterprises and citizens of the country, both inside and outside the country. It also takes into account the value of products generated by domestically based industries. GNP does not include revenue made by foreign nationals in the country or any products manufactured by a foreign business in the country's manufacturing units.

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5 Gross National Product at Factor Cost (GNP-FC)

Gross national product at factor cost (GNPFC) is the sum total of factor income earned by citizens of a country during an accounting year, **including depreciation**. GNP is the most fundamental concept in national income accounting. This article will explain to you the concepts related to the **Gross National Product at Factor Cost (GNPMP)** which will be helpful in Indian Economy preparation for the IAS exam.

5.1 Gross national product at factor cost (GNP-FC)

- To generate goods and services, the company needs land, labour, capital, and an entrepreneur. These factors are compensated in the form of rent, labour, interest, and profit in exchange for their services. Production cost, often known as factor cost, refers to the payments made to factors. It is cost from the standpoint of the firm, and it is income from the standpoint of the factors.
- The value of all final goods and services at market price produced within the domestic territory of the country in an accounting year, including net factor income from abroad less net indirect taxes, is defined as gross national product at factor cost.
- **GNP AT FACTOR COST = GNP AT MARKET PRICE-NET INDIRECT COST**
- The difference between indirect tax and subsidy is known as net indirect tax. The tax imposed on the production and sale of goods is known as indirect tax. Subsidies, on the other hand, lower the market price of commodities, whilst taxes raise it. After subtracting the subsidy from the indirect tax, the net indirect tax is computed. National disposable income is the same as GNP at factor cost.
- GNP at factor cost can also be calculated in another method. GNPPC= GDP at Factor cost+ Net factor income from abroad.

5.2 Significance

- The Gross National Product (GNP) is a means of determining how much a country's citizens contribute to its economy. It considers citizenship regardless of the location of the property.
- The money earned by foreign residents in the country is not included in the GNP.

5.3 Conclusion

The value of all final goods and services at market price generated within a country's home territory in an accounting year, including net factor income from abroad minus net indirect taxes, is defined as gross national product at factor cost.

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6 Net National Product at Market Prices (NNP-MP)

NNP at market price is gross national product less depreciation at market price. The **market worth** of all **finished goods and services** generated by citizens of a nation living domestically and internationally during a year is known as the net national product or NNP at Market price. This article will explain to you the concepts related to the **Net National Product at Market Prices (NNP-MP)** which will be helpful in Indian Economy preparation for the IAS exam.

6.1 Net National Product at Market Prices (NNP-MP)

- The value of a country's people' contribution to economic output, minus depreciation but including net indirect taxes, is known as **NNP at market price**.
- The value obtained by removing depreciation from the **gross national product** (GNP) is known as **net national product at market price.**
    - **NNP (MP) = GNP (MP) – Depreciation**
- The monetary worth of finished goods and services generated by a country's population, both domestically and internationally, in a given period is known as the **net national product (NNP).**
- To arrive at net national income at factor cost, we subtract the amount of indirect taxes from the money value of **NNP at market price or NNI.**

6.2 Significance

- **Fixed capital** is employed in the production of goods and services. Machines depreciate or become damaged due to wear and tear throughout the manufacturing process, and outdated machines become obsolete as a result of technological advancements.
- **Capital instruments** degrade over time owing to continual usage in the manufacturing process, and some must be replaced. To achieve Net National Product at Market Price, this depreciated value and replacement cost must be subtracted from **Gross National Product (GNP at MP).**
- The **NNP** is denominated in the national currency of the country it represents. That is, the NNP in the United States is expressed in dollars (USD), but the NNP in **European Union (EU)** member countries is expressed in euros (EUR).

6.3 Conclusion

NNP is frequently assessed on an annual basis as a tool to assess a country's ability to maintain minimal production levels. Although **Gross Domestic Product (GDP)** is the most widely used metric for measuring national income and prosperity, NNP is widely **employed in environmental economics.**

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7 NNP at Factor Cost (NNP-FC)

The Net National Product at Factor Cost (NNP at Factor Cost) is the net money value of all goods and services produced by normal citizens of a country. It includes income earned by Indian citizens, whether they live in India or abroad. **National income** is also known as **Net National Product at Factor Cost**. The UPSC Indian Economic Syllabus includes NNP at Factor cost which is described in this article.

7.1 Net National Product at factor cost

- National income is the same as the net national product at factor cost. We get the net national product at factor cost by subtracting depreciation allowances from the gross national product at factor cost.
- **NNP at Factor cost = GNP at Factor Cost-Depreciation allowance**
- "The net national product at factor cost is the sum total of net values contributed by all producers in the country's local territory plus net factor income from outside," says Peterson.
- **NNP of Factor Cost = NDP at Factor Cost + Net Factor Income from abroad.**

Note: However, the Ministry of Statistics and Program Implementation's Central Statistics Office (CSO) defines National Income of India as Net National Income at Market Price.

7.2 Conclusion

- The Net National Product at Factor Cost (NNP at Factor Cost) is the net money value of all goods and services produced by ordinary citizens of a country.
- It includes income earned by Indian citizens, whether they live in India or abroad. It is calculated net of national income, which implies it excludes depreciation.
- It's also at factor cost, so it doesn't contain NIT (net indirect taxes). It is the national income of a country.

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8 GVA at the Market price

The Gross Value Added at market price is the difference between the **value of output and Intermediate Consumption**, where the value of output is the domestic sales. In simpler terms, it is the value-added of all goods and services in the economy. In this article, we will study GVA at market price, which is important for **UPSC** Examination.

8.1 What Is Gross Value Added (GVA)?

- Gross value added (GVA) is an **economic productivity metric** that measures a corporate subsidiary's, company's, or municipality's contribution to an economy, producer, sector, or region.
- GVA assigns a **monetary value to the number of goods and services produced in a country, less the cost of all inputs and raw materials** directly attributable to that production.
- GVA thus adjusts gross domestic product (GDP) for the impact of product subsidies and taxes (tariffs).

GVA at Market Price Formula
Gross Value Added at Market Price (GVA at MP) = Value of Output - Intermediate Consumption

8.2 Why GVA is important?

- GVA has gained importance under the new method of **GDP calculation** because it is a more accurate representation of economic activity on the ground. In its policy reviews, the **RBI, too, considers only GVA to express its economic projections.**
- Adjustments to the GVA number to arrive at GDP can throw the resultant number out of whack. **Under the old series, economic growth was measured by the growth in GDP at the factor cost.** The headline GDP growth rate is now adjusted for net indirect taxes.
- **Subsidies are deducted from GVA while indirect taxes are added.** This is to reflect the **cost borne by the consumer.** However, **GDP and GVA have told different stories at different points in time.**

8.3 Conclusion

Gross value added (GVA) at market prices is used widely as GVA and is used to understand the value-added in the economy at current market prices. This gives information and trends regarding the GDP through GVA at the factor cost by adjusting net indirect taxes.

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9 GVA at basic prices

Gross value added at **basic prices** is output valued at basic prices minus intermediate consumption valued at purchasers' prices. The GVA is calculated using the price at which the production is valued. This article will explain to you the concepts related to the **GVA at basic prices** which will be helpful in Indian Economy preparation for the IAS exam.

9.1 GVA at basic prices

- The **concept of GVA at basic price**s comes from the **United Nations' System of National Accounts (SNA)**, which was first presented in 1993 and was updated in 2008 as part of a review of compilation and categorization methods.
- This was approved by **CSO** in its January 2015 base revision.
- The **basic price** is the amount a producer receives from a purchaser for a unit of a good or service provided as an output, less any tax owed and any subsidy owed to the producer as a result of its production or sale. It does not include any transportation costs billed individually by the producer.
- **Output valued at basic prices** minus **intermediate consumption** valued at purchasers' prices equals’ **gross value added at basic prices.**
- The **GVA is calculated** using the **price** at which the production is valued. Purchasers' prices for inputs and basic prices for products show the prices actually paid and received from the producer's perspective.

9.2 Significance

- The **Central Statistical Organization (CSO)** revised its National Accounts data in January 2015, and it was agreed that sector-wise estimates of **Gross Value Added (GVA)** will now be given at basic prices rather than factor cost.
- In simple terms, the basic price for any commodity is the amount the producer receives from the consumer for a unit of the product less any tax and any subsidy on the product.
- **GVA at basic prices,** on the other hand, will include production taxes but exclude any commodity-specific production subsidies.
- **GVA at factor cost,** on the other hand, does not include any taxes and does not include any subsidies, whereas GDP at market prices includes both production and product taxes and removes both production and product subsidies.
- The relationship between **GDP at market prices** and GVA at basic prices is:
- **GVA at basic prices = GVA at factor cost + (Production taxes - Production subsidies)**
- Production taxes or subsidies are paid or received in relation to production and are not based on actual production volume. Land revenues, stamps and registration fees, and profession taxes are all examples of production taxes.
- Simply said, **GVA at basic pricing** is what the producer receives before the product is sold.

- The revenue received by the producer is not the same as the price paid by the consumer, because of the indirect taxes that are paid to the government, this is the case. Similarly, the consumer may be eligible for **food** or **gasoline subsidies.**
- GVA at basic prices will include production taxes but exclude any **commodity-specific production subsidies.**
- Both production and product taxes are included in GDP at market prices, while both production and product subsidies are excluded.

9.3 Conclusion

In simple terms, the basic price for any commodity is the amount the producer receives from the consumer for a unit of the product less any tax and any subsidy on the product. The ultimate value of the output can be used to calculate GDP. It can also be calculated as the sum of value additions made at various phases to arrive at the ultimate result.

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10 GVA at factor cost

GVP at factor cost refers to the total worth of all final goods and services produced within a country's domestic territory during a year, including depreciation. It also refers to GDP at factor cost. GVA at factor cost did not include any taxes or subsidies. This article will explain to you the concepts related to the **GVA at factor cost** which will be helpful in Indian Economy preparation for the IAS exam.

10.1 GVA at factor cost

- The **Systems of National account (SNA)** does not employ the concept of **gross value added at factor cost directly.**
- The total value of all final goods and services produced within a country's domestic territory throughout a year, including depreciation, is referred to as the **GVP at factor cost**
- It can, however, be simply calculated from either **GVA at basic prices** or **GVA at producer's prices** by removing the value of any production taxes and adding production subsidies, which are paid out of gross value added as specified.
- Previously, India measured **GVA at 'factor cost'** until a new approach was implemented, with GVA at 'basic prices' becoming the key indicator of economic output.
- GVA at factor cost did not include any taxes or subsidies.
- **Gross value added (GVA) at basic prices** will be used instead of GDP at factor cost.

10.2 Significance

- It is simple to calculate from either **GVA at basic prices** or GVA at producer's prices by deducting the value of any production taxes and adding production subsidies, which are paid out of gross value added as specified.
- For example, **"other taxes on production"** that are not imposed per unit are the only taxes on production that continue to be paid out of gross value added at basic pricing. **Current taxes (or subsidies)** on the labour or capital employed in the business, such as payroll taxes or current taxes on vehicles or buildings, are the most common.
- By removing additional **production taxes** and adding **production subsidies,** gross value added at factor cost can be calculated from gross value added at basic prices.

10.3 Drawbacks

- The problem with gross value added at **factor cost** is that there is **no observable set of prices** from which gross value added at factor cost may be calculated simply by multiplying this set of prices by the sets of output quantities.
- Other production **taxes or subsidies** are not, by definition, taxes or subsidies on products that can be removed from input and output prices.

- As a result, despite its name, gross value added at factor cost is **not precisely a measure of value added**; rather, it is primarily a **measure of income** rather than output.
- It is the amount of gross value added that is left over for distribution after all taxes and subsidies have been paid on production.

10.4 Conclusion

GVA at factor cost makes no difference which measure of gross value added is used to calculate this income measure because the only difference between the two measures of value added discussed above is the amount of production taxes or subsidies that must be paid out of gross value added.

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