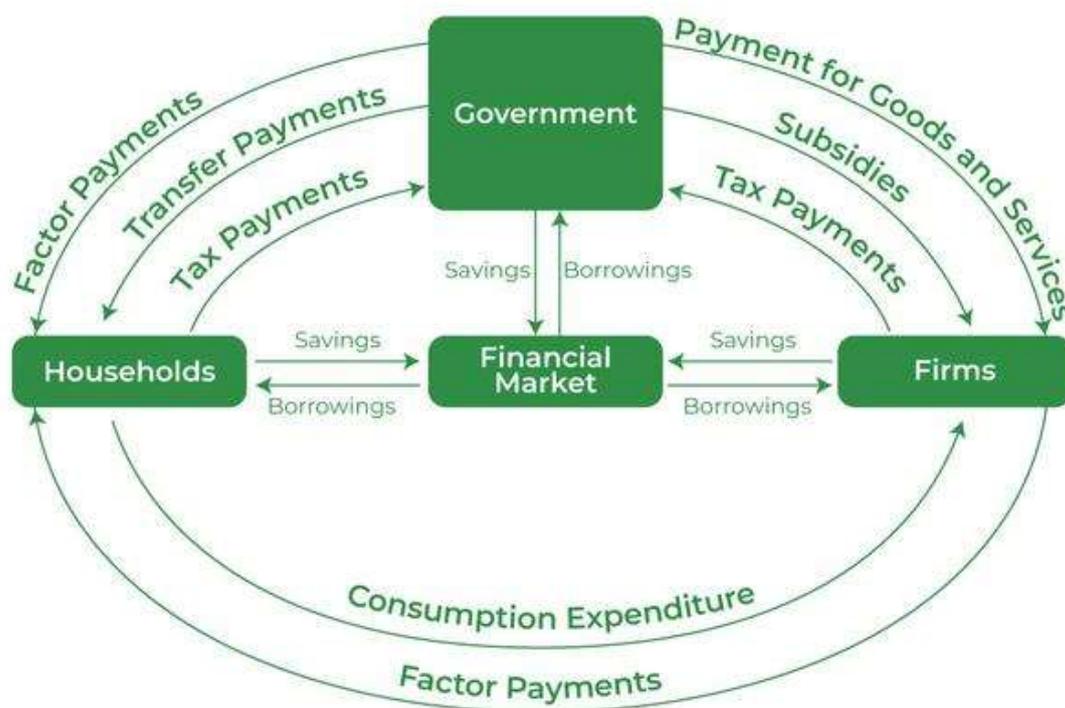


National Income Accounting (India)

1. National Income

- Total **market value of all final goods & services** produced in an economy in a year.
- Can be measured as:
 1. **Production Method** → Value of final goods/services.
 2. **Income Method** → Sum of factor incomes: Rent, Wages, Interest, Profit.
 3. **Expenditure Method** → $C + I + G + (X - M)$.

2. Circular Flow of Income (3-Sector Economy)



Basic Flow

- **Households** → **Firms**: Supply labour, land, capital, entrepreneurship.
- **Firms** → **Households**: Pay wages, rent, interest, profit (factor income).
- **Households** → **Firms**: Spend on consumption.
- **Firms** → **Households**: Provide goods/services.

This continuous movement = Circular Flow of Income.

Saving & Investment

- **Saving = Leakage** (reduces consumption).
- Enters **Financial Markets** (banks, insurance, stock market).
- **Investment by Firms = Injection** → brings savings back into the flow.

Government Sector

- **Leakages:** Taxes, borrowings from households/firms.
- **Injections:** Government expenditure on defence, health, education, and policing.
- The government purchases goods/services like all other sectors.

3. GDP vs GNP

GDP (Gross Domestic Product)

- Value of all final goods/services **produced within India**, by residents and non-residents.
- **Formula:**
$$\text{GDP} = C + I + G + (X - M)$$

GNP (Gross National Product)

- Value of all goods/services **produced by residents of India**, within India and abroad.
- Includes **Net Factor Income from Abroad (NFIA)**.
- **Formula:**
$$\text{GNP} = \text{GDP} + \text{NFIA}$$

Net Factor Income from Abroad (NFIA)

NFIA = Factor income from abroad – Factor income paid to foreigners.

Relationship

- $\text{GNP} = \text{GDP} + \text{NFIA}$
- $\text{GDP} = \text{GNP} - \text{NFIA}$

4. NDP & NNP

Depreciation

- Wear & tear of capital goods like machinery/buildings.

NDP (Net Domestic Product)

- $\text{NDP} = \text{GDP} - \text{Depreciation}$
- **Net = Gross – Depreciation**

NNP (Net National Product)

- $NNP = GNP - \text{Depreciation}$
- Indicates **value after replacing depreciated capital**.

At Market Price vs Factor Cost

- **Market Price (MP)** = includes **Indirect taxes**, excludes **subsidies**.
- **Factor Cost (FC)** = income earned by factors → excludes taxes, includes subsidies.

5. National Income at Factor Cost (NNPFC)

- Also called **National Income**.
- $NNPFC = NNPMP - \text{Indirect Taxes} + \text{Subsidies}$

Example:

If GST increases market price → subtract tax to get factor income.

6. Personal Income (PI)

Income actually **received** by households.

PI formula

Personal Income = National Income – Undistributed Corporate Profits – Corporate Taxes – Social Security Contributions

- Transfer Payments (pensions, unemployment allowance)

Includes income **received but not earned**

Excludes income **earned but not received**

MCQs

1. Consider the following statements regarding GDP and GNP:

1. GDP includes the income generated by non-residents within the domestic territory.
2. GNP includes only the income earned by residents, irrespective of where they work.
3. GDP always exceeds GNP for an open economy.

Which of the above statements is/are correct?

- A. 1 only
- B. 1 and 2 only
- C. 2 and 3 only
- D. 1, 2, and 3

Answer: B

2. In the circular flow of income, saving is considered a leakage because:

- A. It reduces factor incomes paid by firms.
- B. It reduces government expenditure.
- C. It decreases household consumption expenditure.
- D. It reduces investment in the economy.

Answer: C

3. Which of the following will *decrease* National Income (NNPFC)?

- 1. Increase in indirect taxes
- 2. Fall in subsidies
- 3. Increase in depreciation
- 4. Increase in Net Factor Income from Abroad

Select the correct answer:

- A. 1 and 2 only
- B. 1, 2, and 3 only
- C. 1, 2, and 4 only
- D. 3 and 4 only

Answer: B

4. Personal Income will increase if which of the following rises?

- A. Corporate taxes
- B. Social security contributions
- C. Undistributed corporate profits
- D. Transfer payments

Answer: D

5. With reference to the Government sector in the circular flow of income, which of the following is/are correct?

- 1. Government expenditure on goods and services acts as an injection into the economy.
- 2. Borrowings by the government from financial markets constitute a leakage.
- 3. Taxes paid by households and firms act as injections.

Select the correct answer:

- A. 1 only
- B. 1 and 2 only
- C. 2 and 3 only
- D. 1, 2, and 3

Answer: B