

## 3. National Income

### Let us Assess

#### 1. Question

Which among the following is not an important objective in estimating national income?

- A. To study the economic problems
- B. To help in formulating government plans
- C. To calculate the population of a country
- D. To analyse the contribution of different sectors

#### Answer

National income refers to the amount of total income acquired by the country in one year. This amount is acquired through the production of goods and services mainly from the three sectors - Agriculture sector, Industrial sector and Service sector. To get the national income of the country of a particular year, we have to calculate the monetary value of goods and services produced in that year.

National income helps to determine the economic growth of the country and comparison with different countries. There are various objectives that are used in estimating National Income which is - To study the economic problem, to help in formulating government plans and to analyse the contribution of different sectors. It also helps in finding out the advantages and drawbacks of economic activities such as production, consumption, and distribution. It doesn't help us in determining the population of a country.

#### 2. Question

Which among the following concepts of national income considers the domestic territory of a country?

- A. GNP
- B. GDP
- C. Per capita income
- D. NNP

#### Answer

Gross Domestic Product considers the domestic territory of a country. It helps us to evaluate the contribution of different sectors in an economy. It means GDP is the total money value of produced final goods and services within the domestic territory of a country during a financial year. To calculate the GDP, the income of the people working abroad, and the profit of the institutions and firms located abroad will not be calculated. For example - if an Indian firm is located abroad then the profit of that firm will not be calculated to determine the GDP of India but to calculate the Gross National Product of India. Such incomes will be excluded to calculate the GDP of India.

#### 3 A. Question

Write short notes on the following:

Main concepts of national income

#### Answer

National income refers to the amount of total income acquired by the country in one year. The main concepts of National Income are -

a. **GNP** - Gross National Product is the calculation based on the final goods and services produced in a country. Final products are those products which are made ready for its consumption. Example - shirt is the final product for consumption; cloth, thread, and buttons are used as raw material to produce these shirts. For calculating GNP, money of final products is taken into consideration. For example - the price of the raw material such as buttons and thread are included in the price of the shirt. GNP is calculated for a particular financial year. The financial year of India is from 1 April to 31 March.

b. **GDP** - Gross Domestic Product considers the domestic territory of a country. It helps us to evaluate the contribution of different sectors in an economy. It means GDP is the total money value of produced final

goods and services within the domestic territory of a country during a financial year. To calculate the GDP, the income of the people working abroad and the profit of the institutions and firms located abroad will not be calculated. For example – if an Indian firm is located abroad then the profit of that firm will not be calculated to determine the GDP of India but to calculate the Gross National Product of India. Such incomes will be excluded to calculate the GDP of India.

c. **Per capita income** – Per capita income is calculated when we divide national income by population. Per capita income allows us to know about the economic position of a country and helps in comparison of it with other countries.

Per capita income = National Income ÷ Total population

d. **NNP** - when depreciation charges are subtracted from the Gross National Product, we get the Net National Product. It means –

Net National Product = Gross National Product - depreciation charges

Depreciation charges refer to the cost spent on repairing the deterioration caused to the machinery and other things with time. For calculating National Income depreciation charges have to be considered. Moreover, Net National Product is considered as national income.

### 3 B. Question

Write short notes on the following:

CSO

#### Answer

The official agency responsible for estimating the national income of India is known as the Central Statistical Office (CSO). The motive behind this estimation is to help in the purpose of planning and development activities of the government. Product, income, and expenditure methods are used to calculate the national income in India. This allows us to know more about the characteristics of employment sectors and the types of employment people are occupied in.

To evaluate National income, practical and ideational issues are also taken into consideration such as –

- It becomes difficult to estimate national income due to the lack of reliable statistical data.
- Sometimes the money value of goods and services is calculated twice when it passes through different stages of production which leads to double counting.
- National income doesn't take into consideration the Services of housewives.
- In the estimation of the National income, production of goods for self-consumption is not included.
- Due to issues like Ignorance and illiteracy, it becomes difficult to collect statistical data.
- The difficulty in calculating the money value of services becomes an obstruction in calculating national income.
- Moreover, consumers rarely keep the record of their expenditure.

### 3 C. Question

Write short notes on the following:

Knowledge economy and India

#### Answer

In the knowledge sector, knowledge and technology are used to attain economic growth. It is visible that modern technology and information & communication technology has developed into a knowledge economy. Education, innovation, and Information & Communication Technology (ICT) became the basis of the knowledge economy. Moreover, the production and consumption of intellectual capital also take place in the knowledge economy. Intellectual capital refers to the combined knowledge of the people in an enterprise or a society.

In the tertiary sector, services like expert advice on shares and taxes, software experts, etc; is developing on a large scale. Business executives, researchers, scientists, expert policymakers, economic experts, etc are an important support system of this sector. Government is also taking initiatives to strengthen this sector, for example - Govt. of Kerala initiated the development of Infopark and Technopark.

Today, India is considered to be a global service provider in the field of software technology. It is due to the growth of information and communication technology. Because of this, India is now able to improve the condition of the people through the economic growth of the country. There are various factors which could help India to further develop this sector – technical experts who are well acquainted with the English language could serve as an important part of Human resource in this sector; Wide domestic market, Strong private sector and growth of science and technology. Through the use of all these factors, India can increase its national income.

#### 4. Question

Explain the main methods of estimating national income.

#### Answer

Through the estimation of the national income, one could determine the economic condition of a country. Increase in the production will lead to the economic prosperity of the country. Increase in the production will lead to an increase in the factors for a production like land, labour, capital, and organisation. Thus, the increase in rewards such as rent, wages, interest, and profit will lead to increased consumption and investment. Production, income, and expenditure are interconnected with each other. The main methods of estimating national income are as follows:

- **Product method** – product method help us to evaluate the contribution of all the sectors in the national economy. Under this, the money value of goods and services produced by the primary, secondary, and tertiary sectors are calculated to estimate national income. It also helps us to know which contributed the most to the national income.
- **Income method** – Income is the reward obtained for the factors of production. Under Income method, rewards such as rent, wages, interest, and profit are calculated to estimate national income. This helps us to analyse the contribution of each of these factors towards the national income.
- **Expenditure method** – the expenditure earned by the individuals, firms and government in a particular year is used to estimate the national income. The inclusion of consumption expenditure, investment expenditure and government expenditure provides the total expenditure.

#### 5. Question

Write four limitations in estimating the national income of India.

#### Answer

National income refers to the amount of total income acquired by the country in one year. This amount is acquired through the production of goods and services mainly from the three sectors - Agriculture sector, Industrial sector and Service sector. To get the national income of the country of a particular year, we have to calculate the money value of goods and services produced in that year. The four limitations in estimating the national income of India are as follows –

- Sometimes the money value of goods and services is calculated twice when it passes through different stages of production which leads to double counting.
- National income doesn't take into consideration the Services of housewives.
- In the estimation of the National income, production of goods for self-consumption is not included.
- Due to issues like Ignorance and illiteracy, it becomes difficult to collect statistical data.

### Extended Activities

#### 1. Question

With the help of reading materials and the Internet, find out the different institutions in India that contribute to the knowledge economy. Analyse how they helped in increasing India's national income.

#### Answer

Knowledge economy refers to the knowledge sector where knowledge and technology are used to attain economic growth. It is visible that modern technology and information & communication technology has developed into the knowledge economy. Education, innovation, and Information & Communication Technology (ICT) became the basis of the knowledge economy. The different institutions in India that contributed to the knowledge economy are as follows:

- **IT companies**- IT revolution helped to realise the potential of the knowledge through the development of

the digitalisation, computing and communications systems like scanning and imaging technologies, memory and storage technologies, display systems, etc. Information technology allowed us to deal with the manipulation, storage and broadcasting large quantity of information at low cost.

- **Globalisation** – because of the globalisation, the requirement of markets for the final product has become more global. It helped us to deal with the tariff and non-tariff barriers. Foreign direct investment and international capital flow management became easier. It has become easy to sell, buy, create and deliver goods and services through this electronic medium. It helps in fulfilling economic demand.

- **Computer networking** – use of technology interconnected us with other major networks. Development of the internet helped us to make the world our global village.

- **Electronic commerce** – this term refers to the use of the internet to sell and buy goods and services. Also, money and data are also transferred to complete the transactions. This helped individual and institutions to sell their services through electronic media. People use the internet to conduct business and to deal with the commercial transaction with the use internet.

These above-mentioned institutions are a part of the knowledge economy and are the major driving force behind the growth of the knowledge economy. With the development of the knowledge economy, the national income of India is also increasing. More and more people are making use of knowledge and technology to increase their commercial business. As to estimate national income, the money value of goods and services produced by the primary, secondary, and tertiary sectors is calculated.

## 2. Question

Prepare a report on the growth of national income of world nations with the help of the Economic Survey 2014-15.

### Answer

The Economic Survey is conducted to analyse economic development. It is presented by the Finance Ministry of India in the parliament. On February 27, 2015, Union Finance minister Arun Jaitley presented the economic survey 2014-15. The economy is expected to grow between 8.1 to 8.5. Industry and service sector will be consistent in its growth. Domestic demand was the main focus in the growth of 2014-2015 but subsidies failed to make an impact on the lives of the poor people.

According to the economic survey, India should focus on the fiscal deficit target of 3%. Economic survey 2014-15 highlighted crucial information. Since 2013, there is over 6% decline in the inflation rate. It is estimated that account deficit is estimated to be 1 per cent in 2014-15 which was 6.7 per cent of GDP in 2012-13. For the long term development, private investment considered as the main focus. A shift is needed to be made from consumption to investment to improve the quality of expenditure. To transfer the financial resources to the poor without any corruption or leakages – JAM Number Trinity – Jan Dhan Yojana, Aadhaar, and Mobile will be used. India increased taxes on fossil fuels and reduced subsidies. It is estimated that food grain production of 2014-15 257.07 million tonnes (MT). The education system of India is highest with 713 universities, 36,739 colleges and 11,343 diploma-level institutions. Industrial production has to be improved with the help of the infrastructure sectors such as electricity, coal and cement.

To improve GDP growth, public investment in railways will be made. Lower export growth became the main concern. Balance is needed to be maintained between 'Make in India' and 'Skilling India'. The focus under 'Make in India' is made to develop the economy with the high level of productivity, to increase growth resources will be acquired from the rest of the country, technological development will be fulfilled, GST and direct benefit transfer could improve the condition. Initiation has to be made to create the National market for agriculture commodities under the Agricultural Produce Market Committee (APMC) Act. The focus is on to remove barriers created against the choices of farmers and marketing infrastructure by the private sector.

With the help of the comparison made between the economic survey of 2013 and 2014, many initiatives have been started to improve economic growth. Even though economic survey 2014-15 highlighted crucial details but projects like 'Make in India', Jan Dhan Yojana, Aadhaar, etc is also started to initiate economic growth. This eventually will lead to an increase in national income.