

Economics
One-Liners
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Group D

**Basics of
Indian
Economy**

Basics of Indian Economy

National Income

- National Income is usually defined as the total Value of all final goods and services produced in a country in a particular period (Generally one year).

- Following are the measures of National Income-

(A) GDP (Gross Domestic Product)

(B) GNP (Gross National Product)

(C) NNP (Net National Product)

(D) PI (Personal Income)

(E) DPI (Disposable Personal Income)

(A) GDP (Gross Domestic Product)-

- GDP is the total value of all final goods and services produced within the geographical boundary of the country during a particular period (Generally one year).

- In this, we consider all goods/ services, produced by both resident citizens and foreign nationals who reside within the boundary of that country.

• Example-

Suppose there are 100 crore Indians who earn RS. 100 crores in Indian territory and 1 crore foreigners who earn RS. 10 crores in Indian territory and send it to their respective countries. At the same time, 10 crores Indians living in foreign countries earn RS. 40 crores and send it to India. Here, GDP is (100 + 10 = 110 crores).

(B) GNP (Gross National Product)-

- GNP is defined as the total value of the final goods and services produced by Indians in India as well as abroad during a particular period.

- GNP includes the value of goods produced by resident and non-resident citizens of a country whereas the income of foreigners who reside in India is excluded.

• Example-

Suppose there are 100 crore Indians who earn 100 crores in Indian territory and 1 crore foreigners who earn 10 crores in Indian territory and send it to their respective countries. At the same time, 10 crores Indians living in foreign countries earn 40 crores and send it to India.

Here, GNP is (100 + 40 = 140 crore)

We can say $GNP = GDP + \text{Net Factor Income from Abroad (Export-Import)}$

$GNP = 110 + (40 - 10) = \text{Rs. } 140 \text{ crores}$

(Inward remittances come in export and outward remittances in Import)

(C) Net National Product (NNP)-

- It is calculated by deducting depreciation from Gross National Product (GNP)

- $NNP = GNP - \text{Depreciation}$

Note-

Factor Cost- Cost incurred to produce goods and service

Market price- For calculating market price we add Indirect taxes and deduct subsidies given by the government in Factor cost.

$\text{Market Price} = \text{Factor cost} + \text{Indirect Taxes} - \text{Subsidy}$

- $NNP \text{ at factor cost} = NNP \text{ at market price} - \text{Indirect taxes} + \text{subsidy}$

- Usually, we called NNP at factor cost as National Income.

- Likewise, NNP at factor cost, we can also calculate GDP at factor cost.

(D) Personal income-

- It is the sum of all the income received by the people of the country in one year.

$\text{Personal Income} = \text{National Income} + \text{Transfer payments} - \text{Undisclosed profits of corporate} + \text{Payment for social security provisions}$

- Transfer Payments are the payments that are not against any productive work. (Example- Old Age Pension, Unemployment compensation etc.)



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- Social Security Provisions- Payment made by employees towards PF, Insurance etc.

(E) Disposable Personal Income-

- Income available to individuals after deducting direct taxes.
- Disposable Personal Income = Personal Income – Direct Taxes

Real Income and Nominal Income-

- If we use base year price for calculating National Income, this is called the real income.
- If we use particular year (current year) price for calculating National Income, this income is called the Nominal income.

GDP Deflator-

- Used to calculate overall price rise.

Estimation of National Income in India

- In 1868, Dadabhai Naoroji wrote a book 'Poverty and Un British Rule in India'. It was the first attempt at the calculation of National Income.
- The first person to estimate National Income scientifically was Dr. V. K. R. V. Rao who estimated national income for the period 1925-29.
- After Independence National Income committee was formed in 1949 under the chairmanship of P.C. Mahalanobis.
- After some years Central Statistical Organisation (CSO) was formed.



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