ECONOMICS FOR FINANCE

CHALISA

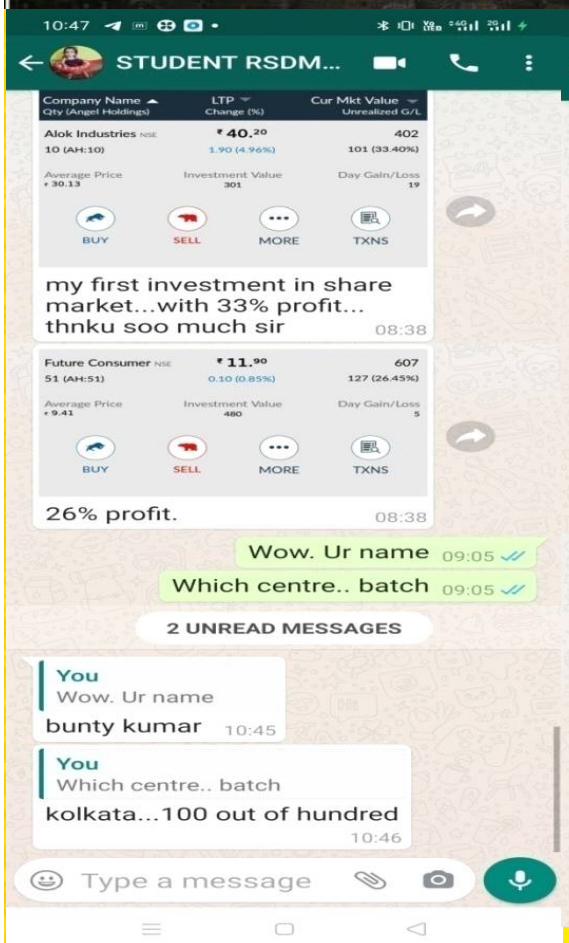
FOR DEC. 2021 ATTEMPT

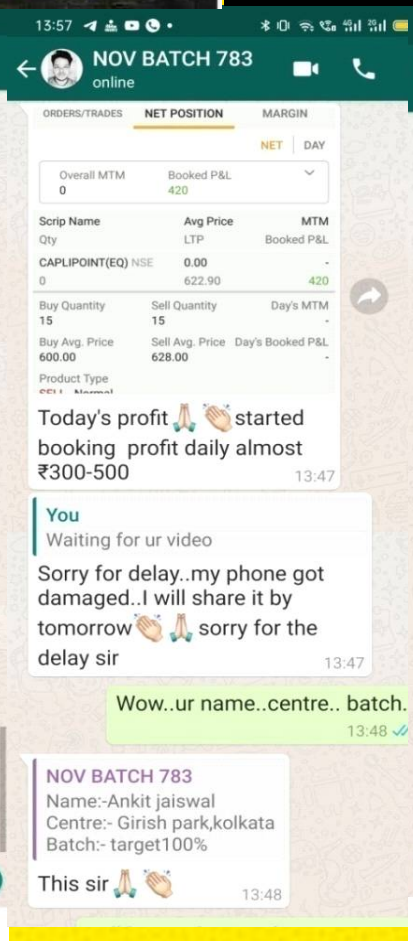
EVEN IF NOBODY BELIEVES IN ME, SUPPORTS ME, OR RECOGNIZES MY EFFORT. I WILL KEEP GOING

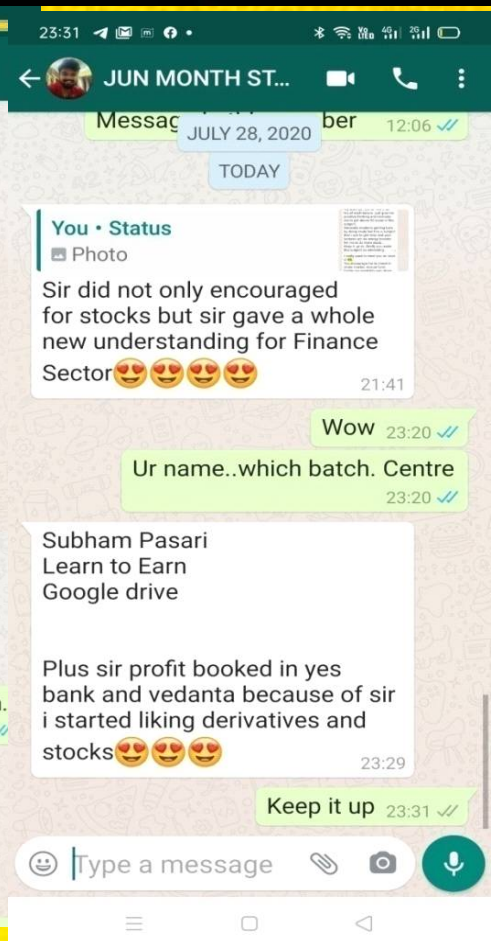
CA Aaditya Jain

With Sunrise You Rise

CA,MBA(FINANCE),RESEARCH ANALYST,
INVESTMENT ADVISOR L-1 & L-2,NCFM,B.COM,M.COM
AWARDED AS NSE CERTIFIED MARKET PROFESSIONAL
AND MASTER OF FINANCIAL ANALYSIS







"Your imagination is an extremely powerful tool."

100% MARKS IN CA FINAL SFM

CFA QUALIFIED ALL THREE LEVEL ..NOW FINANCE MANAGER OF ITC

The Institute of Chartered Accountants of India

BEST FM TEACHER

ITC Limited

Roll Number	426168
Name	ADITYA MITTAL
Reg No	NRO0329834
Total marks	565
Rank No	3

The Institute of Chartered Accountants of India

BEST FM TEACHER

THANKS TO AADITYA JAIN SIR .I SCORED 100 OUT OF 100 MARKS IN SFM WITH ALL INDIA RANK 3 YOU ARE NO.1 SFM FACULTY OF INDIA.PLZ CHECK MY RESULT AT NRO-0329834;ROLL NO.-426168;ITS A TRIBUTE TO YOUR TEACHING

Roll Number	426168
Name	ADITYA MITTAL
Group I	
Financial Reporting	062
Strategic Financial Management	100
Advanced Auditing and Professional Ethics	059
Corporate and Allied Laws	057
Total	278
Result	PASS
Group II	
Advanced Management Accounting	083
Information Systems Control and Audit	059
Direct Tax Laws	073
Indirect Tax Laws	072
Total	287
Result	PASS
Grand Total	565

AADITYA JAIN CLASSES CA CS CMA TOPPERS

CMA RANK-1 ROBIN SINGLA

CA RANK-1 DIMPY JINDAL

CS RANK-1

CA RANK-1 SURBHI AGARWAL

CS RANK-1 SHRUTI GOYAL

CA RANK-1 MOHIT GUPTA

CA RANK-2 MRIDU GARG

CS RANK-2 YOGITA GANDHI

CA RANK-3 ADITYA MITTAL

CMA RANK 1 WITH 98% MARKS IN SFM IN DEC-20

बस एक काम करो, आज ही शुरुआत करो

"Start Now. Start Where You Are. Start With Fear. Start With Pain. Start With Doubt. Start With Hands Shaking. Start With Voice Trembling. Start And Don't Stop. Just...Start."

VKditya Jain
With Sunrise, You Rise

THEORIES OF INTERNATIONAL TRADE

Theory of Absolute Advantage

Commodity	Country A	Country B
Wheat (bushels/hour)	6	1
Cloth (yards/hour)	4	5

➡**What each country should produce:** Country A would specialise completely in production of wheat and country B in cloth.
➡**Calculation Of Gain**: Assume: If country A exchanges six bushels of wheat (6W) for six yards of country B's cloth (6C), **Country A gains 2C or saves half an hour or 30 minutes of labour time.Country B gains 24C, or saves nearly(approx) five hours of work.**

The Theory of Comparative Advantage

Output per Hour of Labour

Commodity	Country A	Country B
Wheat (bushels/hour)	6	1
Cloth (yards/hour)	4	2

➡**What each country should produce:** Country A specialises in the production of wheat and country B should specialise in the production of cloth.
➡**Calculation Of Gain**: **Assume** that country A could exchange 6W for 6C with country B.
Country A would gain 2C (or save half an hour of labour time).
Country B would gain 6C or save three hours of labour time.
➡**Range for mutually advantageous trade:** Range for mutually advantageous trade is **4C < 6W < 12C**. The spread between 12C and 4C (i.e., 8C) represents the total gains from trade available to be shared by the two nations by trading 6W for 6C.

Opportunity cost concept from Microeconomic theory

Output per Hour of Labour

Commodity	Country A	Country B
Wheat (bushels/hour)	6	1
Cloth (yards/hour)	4	2

➡**Calculation Of Opportunity Cost**: Country A : 1W = 2/3C and Country B : 1W = 2C,
➡**What each country should produce:** Opportunity cost of wheat is lower in country A than in country B. Therefore, country A should consider specializing in producing wheat and Country B in cloth.

Productivity of Labour

➡The table below shows the number of labour hours required to produce wheat and cloth in two countries X and Y.

Commodity	Country X	Country Y
I unit of cloth	4	1
I unit of wheat	2	2.5

Compare the productivity of labour in both countries in respect of both commodities.
Solution: Productivity of labour in both countries in respect of both commodities

Productivity of Labour	Country X	Country Y
Units of cloth per hour	0.25	1
Units of wheat per hour	0.5	0.4

"Terms of trade"
➡"Terms of trade" is ratio of the price of a country's export commodity to the price of its import commodity.
➡**When a country's TOT is less than 100%**, more capital is leaving the country than is entering the country. **When the TOT is greater than 100%**, the country is accumulating more capital from exports than it is spending on imports.

THE INSTRUMENTS OF TRADE POLICY(TARIFFS)

Specific Tariff: ➡**For example:** if the price of the imported cycle is Rs 5,000/, then the rate of tariff is 20%; if due to inflation, the price of bicycle rises to Rs 10,000, the specific tariff is only 10% of the value of the import.

Ad valorem tariff:
➡A **20% ad valorem tariff** on any bicycle generates a **Rs 1000/** payment on each imported bicycle priced at **Rs 5,000/** in the world market; and if the price rises to **Rs 10,000,** it generates a payment of **Rs 2,000/.**

Mixed Tariffs:➡For example, duty on cotton: **5 per cent *ad valorem* Or Rs 3000/per tonne, whichever is higher.**

Compound Tariff or a Compound Duty:
➡**For example**: duty on cheese at 5 per cent advalorem **plus** 100 per kilogram.

Dumping
➡**Which of the three exporters engage in anticompetitive act in the international market while pricing its export of good X to country D?**

Goods X	Country A (in $)	Country B (in $)	Country C (in$)
Average Cost	30.5	29.4	30.9
Price per Unit for domestic Sales	31.2	31.1	30.9
Price charged in country D	31.9	30.6	30.6

Solution: There is **dumping by Country B and Country C.** B because it sells at a lower price than that in domestic market; Country C because it is selling at a price which is less than the average cost of production than that in domestic market.

EXCHANGE RATE AND ITS ECONOMIC EFFECTS

Direct quote and Indirect quote: ➡For example, **1 Dollar = Rs. 66** is a direct *quote for India.*
➡For example: **1 Rupee = 1/66 = $ 0.0151** is a indirect *quote for India.*

'Base Currency' and a 'Counter Currency': ➡For example, **1 Dollar = Rs. 66** is a direct quote for India. Here Dollar is base currency and Rupee is the counter currency.
➡For example: **1 Rupee = $ 0.0151** is a indirect *quote for India.* Here Rupee is base currency and Dollar is the counter currency.

'Cross Rate': ➡**Example:** 1 USD= Rs. 45; 1 USD = Yen 1.20; Find 1 Yen = Rs. _____
By Using Cross Rate we can find 1 Yen = Rs. 37.50

'Unique' or 'Unified' Rate: ➡When there is **no difference between the buying and the selling rate**, the rate is said to be 'unique' or 'unified'.

Forward premium & Forward discount : ➡**Example**: Spot Rate : 1 $ = Rs. 43 and 6 Month Forward Rate : 1 $ = Rs. 45 ; In the above example $ is at a premium
➡**Example**: Spot Rate : 1 $ = Rs. 43 and 6 Month Forward Rate : 1 $ = Rs. 42
In the above example $ is at a discount .

Real Exchange Rate: ➡**It is calculated as:** Real Exchange Rate = Nominal exchange rate x $\frac{\text{Domestic price}}{\text{Foreign price}}$

INTERNATIONAL CAPITAL MOVEMENTS

Foreign Direct Investment (FDI):
➡According to the IMF and OECD definitions, the **acquisition of at least ten percent** of the ordinary shares or voting power makes it eligible to be categorized as foreign direct investment (FDI).

Foreign Portfolio Investment (FPI): ➡Following international standards, portfolio investments are characterised by lower stake in companies with their **total stake in a firm at below 10 percent.**

MARKET FAILURE

Difference between social cost and social benefit: ➡Social Cost = Private Cost + External Cost
➡Social benefits = private benefits + total positive externalities

Marginal Social cost (MSC) & Marginal Social benefit (MSB)
- **Marginal Social cost (MSC)** = Marginal private cost (MPC) + Marginal external cost (MEC)
- **Marginal Social benefit (MSB)** = Marginal private benefit (MPB) + Marginal external benefit (MEB)
- **When no externality is present:** MPC = MSC and MPB = MSB.
- **If an externality is present**, then either MSC ≠ MPC or MSB ≠ MPB (or both)

'Socially Optimal Output' ➡The condition for efficiency and optimum output is **MSB = MSC** i.e., marginal social benefit = marginal social cost.

FISCAL POLICY

Budget: ➡A **balanced budget** results when expenditures in a year equal its revenues for that year.
➡A **budget surplus** that occurs when the government collects more than what it spends
➡A **budget deficit** wherein the government expenditure in a year is greater than the tax revenue it collects
➡While a **budget surplus** reduces national debt, a **budget deficit** will add to the national debt.
➡**Nation's Debt A nation's debt is the difference between its total past deficits and its total past surpluses**.

Fiscal Deficit/Primary Deficit/Revenue Deficit

Fiscal deficit: Total expenditure on revenue and capital account- revenue receipt- non-debt capital receipt
Primary deficit: Fiscal deficit- Interest payment
Revenue Deficit: Revenue deficit = Total Revenue expenditure – Total Revenue receipts

The Government Spending Multiplier: ➡**Spending Multiplier (k):** $\frac{\Delta Y}{\Delta G} = \frac{1}{1\text{-MPC}} = \frac{1}{\text{MPS}} = \frac{1}{1\text{-b}}$

Where, MPS stands for marginal propensity to save (MPS); and ; MPC is marginal propensity to consume; MPS equals 1 - MPC

The Tax multiplier:➡Simple Tax multiplier : $\frac{\Delta Y}{\Delta T} = \frac{-b}{1\text{-b}}$ Where b = MPC

➡The tax multiplier has a **negative sign**. It means that tax and increase in tax have negative impact on national income.
➡Given the same value of marginal propensity to consume, simple **tax multiplier will be lower than the spending multiplier**. For example when the MPC is 0.9, the spending multiplier is 10; but the tax multiplier is -9 and when the MPC is 0.6, the spending multiplier is 2.5; but the tax multiplier is -1.5.

The Balanced Budget multiplier: ➡A government budget is said to be a balanced budget if the estimated government expenditure is equal to expected government receipts(Taxation).
➡The balanced budget multiplier is always equal to 1.
➡The balanced budget multiplier is obtained by adding up the government spending multiplier (fiscal multiplier) and the tax multiplier.

➡Balanced budget multiplier = $\frac{\Delta Y}{\Delta G} + \frac{\Delta Y}{\Delta T} = \frac{1}{1-b} + \frac{-b}{1-b} = \frac{1-b}{1-b} = 1$

CONCEPT OF MONEY DEMAND

Classical Approach: The Quantity Theory of Money (QTM): ➡Fisher's version, also termed as 'equation of exchange' or 'transaction approach' is formally stated as follows: **MV = PT**
Where, M = the total amount of money in circulation (on an average) in an economy; V = transactions velocity of circulation i.e. the average number of times across all transactions a unit of money (say Rupee) is spent in purchasing goods and services ; P = average price level (P = MV/T); T = the total number of transactions.
➡Thus, the expanded form of the equation of exchange becomes: **MV + M'V' = PT**
Where M' = the total quantity of credit money ; V' = velocity of circulation of credit money
➡The equation can also be rewritten as **P = (MV + M' V') / T**
Example: If P x T in a year is Rs. 5 crore and the quantity of money is Rs. 1 crore then V = 5. This means that a unit of money is spent 5 times in buying goods and services in the economy.

Velocity: Money has wings, coins, bank-notes, and bank deposits move round with great speed, not staying in one person's pocket or purse for more than a few days. **In short**: Thus, if an economy has US$3, and those $3 were spent five times in a month, total spending for the month would be $15.

The Neo classical Approach: The Cambridge approach

➡**The Cambridge equation is stated as**: **Md = k PY**

Where, Md = is the demand for money Y = real national income

P = average price level of currently produced goods and services PY = nominal income

k = proportion of nominal income (PY) that people want to hold as cash balances

➡The term 'k' in the above equation is called '**Cambridge k**'.

CONCEPT OF MONEY SUPPLY

M1, M2, M3 and M4 Measurement of Money Supply

M1 = Currency notes and coins with the people + demand deposits of banks (Current and Saving deposit accounts) + other deposits with the RBI.

M2 = M1 + savings deposits with post office savings banks.

M3 = M1 + net time deposits with the banking system

M4 = M3 + total deposits with the Post Office Savings Organization (excluding National Savings Certificates)

Four new monetary aggregates

(i)Reserve Money = Currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI = Net RBI credit to the Government + RBI credit to the Commercial sector + RBI's Claims on banks + RBI's net Foreign assets + Government's Currency liabilities to the public - RBI's net non-monetary Liabilities*S

(ii)NM1 = Currency with the public + Demand deposits with the banking system + 'Other' deposits with the RBI.

(iii)NM2 = NM1 + Short-term time deposits of residents (including and up to contractual maturity of one year).

(iv)NM3 = NM2 + Long-term time deposits of residents + Call/Term funding from financial institutions.

Close substitutes of money issued by the non-banking financial institutions

L1= NM3 + All deposits with the post office savings banks (excluding National Savings Certificates).

L2 = L1 +Term deposits with term lending institutions and refinancing Financial institutions* (FIs) + Term borrowing by FIs + Certificates of deposit issued by FIs.

L3 = L2+ Public deposits of non-banking financial companies

Concept of Money Multiplier: ➡The money supply is defined as: **M = m x MB**

Where M is the money supply, **m** is money multiplier and MB is the monetary base or high powered money.

➡From the above equation we can derive the money multiplier (m) as : $\text{Money Multiplier}(m) = \frac{\text{Money Suppy}}{\text{Monetary Base}}$

➡**For instance**, if there is an injection of Rs.100 Cr through an open market operation by the central bank of the country and if it leads to an increment of Rs.500 Cr. of final money supply, then the money multiplier is said to be 5.

THE MONEY MULTIPLIER APPROACH TO SUPPLY OF MONEY

➡**It considers three factors as immediate determinants(factors) of money supply, namely:**

(a) the stock of high-powered money (H) **(b)** the ratio of reserves to deposites, **e = {ER/D}**

(c) the ratio of currency to depoists, **c ={C/D}**

TD/DD ratio:
➦The **time deposit-demand deposit ratio** i.e. how much money is kept as time deposits compared to demand deposits.

Excess Reserves: ➦'Excess reserves' are the difference between total reserves (TR) and required reserves (RR). **Therefore, ER = TR - RR.**
➦**Example:** If total reserves are Rs 800 billion, whereas the required reserves are Rs 600 billion, then the excess reserves are Rs 200 billion.

Credit Multiplier (Deposit Multiplier): ➦The credit multiplier is the **reciprocal of the required reserve ratio**. If reserve ratio is 20%, then credit multiplier = 1 / 0.20 = 5.

➦**Equation**: $\text{Credit Multiplier} = \frac{1}{\text{Required Reserve Ratio}}$

MONEY MULTIPLIER WHEN THERE IS EXCESS RESERVE
Money Supply Using Currency & Deposits: Money Supply is M = Currency + Deposits

Money Multipler : $m = \frac{1+c}{r+e+c}$

Money Supply Using Money Multiplier & High Powered Money $= \frac{1+c}{r+e+c} \times H$

THE KEYNESIAN THEORY DETERMINATION OF NATIONAL INCOME

Determination of Equilibrium Income-TWO SECTOR MODEL
➦In equilibrium, we have : National Income (Y) = Consumption(C) + Investment (I)

Determination of Equilibrium Income-THREE SECTOR MODEL
➦In equilibrium, we have : **Y = C + I + G**

Determination of Equilibrium Income -FOUR SECTOR MODEL
➦In equilibrium, we have **Y = C + I + G + (X - M)** Where **X =** Export and **M =** Import

Demand Function: ➦Y = C + I

Saving (supply) function: ➦Y = C + S

Demand & Supply Relation ➦C + I = C + S or I = S

Consumption Function: ➦The Consumption function, **proposed by Keynes is as follows:** **C = a + bY**
Where, **C** = aggregate consumption expenditure; **Y** = total disposable income; **a** = a constant term which denotes the value of consumption at zero level of disposable income i.e autonomous consumption; **b** = the slope of the function or ($\Delta C / \Delta Y$) which is the marginal propensity to consume (MPC) i.e the increase in consumption per unit increase in disposable income.

Marginal Propensity to Consume (MPC): ➦The concept of MPC describes the **relationship between change in consumption (ΔC) and the change in income (ΔY)**

➡ $MPC = \frac{\Delta C}{\Delta Y} = b$

Average Propensity to Consume (APC): ➡The **ratio of total consumption to total income is known as the average propensity to consume (APC).**

➡ $APC = \frac{\text{Total Consumption}}{\text{Total Income}} = \frac{C}{Y}$

Marginal propensity to save(MPS): ➡ $MPS = \frac{\Delta S}{\Delta Y} = 1 - b$

➡Also we know that, **MPC + MPS = 1**

Average propensity to save

➡ $APS = \frac{\text{Total Saving}}{\text{Total Income}} = \frac{S}{Y}$

➡For example, if saving is ` 20 Crores at national income of ` 100 Crores, then:
APS = S / Y = 20 / 100 = 0.20, i.e. 20% of the income is saved.

Aggregate Supply: ➡**AS = C + S**

Investment Multiplier(expenditure multiplier)

➡ $K = \frac{\Delta Y}{\Delta I} = \frac{\text{Change In Income}}{\text{Change In Investment}} = \frac{1}{1 - MPC} = \frac{1}{MPS}$

THE MAXIMUM AND MINIMUM VALUE OF MULTIPLIER ? /WHAT IS THE RANGE OF MULTIPLIER ?
➡**What is the range of values it can take?** Since, 0 < MPC < 1; therefore,If M PC is zero then K = 1 and if MPC = 1, then K= ∞ ; **Minimum and Maximum Value of Multiplier:**
(i) Minimum value of multiplier is 1 because minimum value of MPC can be zero.
(ii) Maximum value of multiplier may be (infinity) because maximum value of MPC can be 1 i.e. the economy decides to consume the whole of its additional income.

FOREIGN TRADE MULTIPLIER OR AUTONOMOUS EXPENDITURE MULTIPLIER

➡The **autonomous expenditure multiplier** in a four sector model includes the effects of foreign transactions and is stated as $\frac{1}{1 - b + v}$
Where b marginal propensity to consume, and v is marginal propensity to import which is greater than zero.

BREAK-EVEN LEVEL OF INCOME:➡**Break-even level of Income** attained at break-even point = C = Y

INDUCED CONSUMPTION:➡Induced Consumption = Amount Of Consumption - Autonomous consumption

AUTONOMOUS CONSUMPTION
➡Autonomous consumption is the **amount consumed when disposable income(DI) is zero.**

- $C = 40 + .80\,(DI)$

Autonomous Consumption

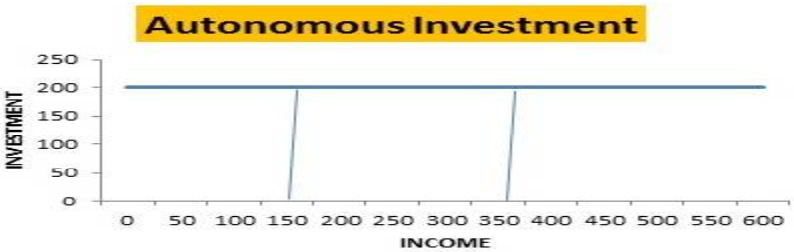
Disposable Income	Consumption [C]	Savings [S]
0	40	-40
100	120	-20
200	200	0
300	280	20
400	360	40

LEVEL OF DISPOSABLE INCOME (Yd): Level of Disposable income Yd is given by: Yd = Y - Tax + Transfer Payments

NET EXPORTS: Net exports = Value total exports - Value of total imports;

WHEN TAX RATE IS GIVEN WITH MULTIPLIER: Expenditure (Investment) Multiplier = $\frac{1}{1-b(1-t)}$

'Autonomous Investment' ➡ An autonomous investment is an **investment in a country that is made without regard to the level of economic growth.**
➡ **In example** autonomous investment is Rs.200 crore.



DETERMINATION OF NATIONAL INCOME

Nominal GDP vs Real GDP
➡ **GDP deflator:** GDP Deflator = Nominal GDP/Real GDP x 100
➡ Real GDP = Nominal GDP / GDP Deflator x 100
➡ **Inflation rate in year 2 = GDP deflator in year 2-GDP deflator in year 1/GDP deflator in year 1 x 100**

MARKET PRICE AND FACTOR COST
➡ **Market Price** = Factor Cost + Net Indirect Taxes = Factor Cost + Indirect Taxes - Subsidies

NET INDIRECT TAX: INDIRECT TAX = Indirect Taxes - Subsidies

PER CAPITA INCOME: ➡ It is obtained by **dividing the country's gross domestic product, adjusted by inflation, by the total population.**

'NATIONAL' AND 'DOMESTIC': ➡ **National = Domestic + Net Factor Income from Abroad**

NET & GROSS: Net = Gross - Depreciation

VALUE ADDED: ➡ Gross value added (GVA mp) = Value of output - Intermediate consumption
= (Sales + change in stock) - Intermediate consumption

DIFFERENT CONCEPTS OF NATIONAL INCOME

National income accounts have three sides:

•**The product side** [Value Added Method]•**The expenditure side** •**The income side**

VALUE ADDED METHOD OR PRODUCT METHOD

➦**How do we arrive at national income or NNP fc**

Calculation of GDPmp: Value of output-Intermediate consumption= (Sales + change in stock)-Intermediate consumption or Value Added

Calculation of NDPmp: (GDP mp) - Depreciation

Calculation of NDPfc: NDP mp - Net Indirect taxes

Calculation of NNPfc: Net Domestic Product (NDPfc) + NFIA

INCOME METHOD

➦**How do we arrive at national income or NNP fc**

Calculation of NDP fc: NDP fc = Sum of factor incomes paid out by all production units = Compensation of employees + Operating Surplus (rent + interest+ profit) + Mixed Income of Self - employed

Calculation of NNP fc: NNP Factor National Income = NDP fc + Net Factor Income from Abroad

EXPENDITURE METHOD

➦**How do we arrive at national income or NNP fc :**

Calculation of GDP mp: Final consumption expenditure + gross domestic capital formation + net exports.

Calculation of GNP mp

To this, we add the net factor income from abroad and obtain Gross National Product at market price (GNP Mp).

Calculation of GNP fc:

Subtracting indirect taxes from GNP Mp, we get Gross National Product at factor cost (GNP fc).

Calculation of NNP fc: National income or NNP FC is obtained by subtracting depreciation from Gross national product at factor cost (GNP Fc).

OVERALL CONCLUSION:

➦Ideally, all the three methods of national income computation should arrive at the same figure.

PERSONAL INCOME(PI): ➦PI = NI + income received but not earned - income earned but not received.

➦PI = NI Undistributed profits - Net interest payments made by households - Corporate Tax +Transfer Payments to the households from firms and government.

DISPOSABLE PERSONAL INCOME (DI): ➦DI = PI - Personal Income Taxes - Non tax payments OR

OR Disposable Income=Personal Income-Direct tax paid by households– Miscellaneous receipts of Government administrative undertakings in the form of fees,fines etc

TWO MORE CONCEPTS NEED TO BE UNDERSTOOD, NAMELY:

1.Net National Disposable Income: Net National Disposable Income (NNDI) = Net National Income + other net current transfers from the rest of the world (Receipts less payments)

Net National Disposable Income (NNDI) = NNI(Net national income) + net taxes on income and wealth receivable from abroad + net social contributions and benefits receivable from abroad.

2.Gross National Disposable Income (GNDI) = NNDI + CFC (consumption of fixed capital) = GNI(Gross national income) + other net current transfers from the rest of the world (Receipts less payments)

(Other Current Transfers refer to current transfers other than the primary incomes)

CATEGORY OF DOMESTIC INCOME: ➡**Domestic Income may be categorized into:**

1.Income from domestic product accruing to the public sector which includes income from property and entrepreneurship accruing to government administrative departments and savings of non-departmental enterprises.

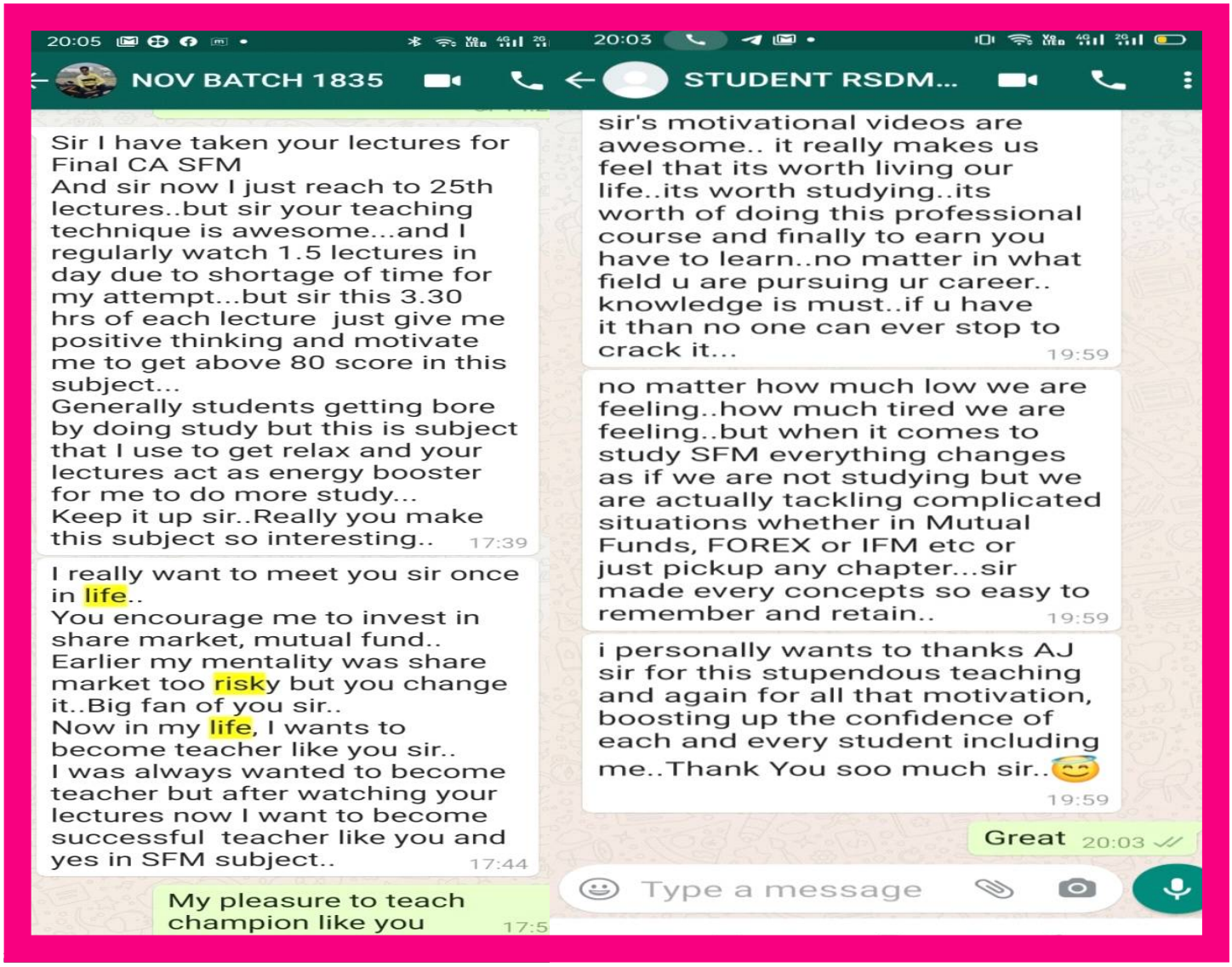
2.Income from domestic product accruing to private sector = NDP_{FC} - Income from property and entrepreneurship accruing to government administrative departments - Savings of non-departmental enterprises.

PRIVATE INCOME: ➡**Private Income** = Factor income from net domestic product accruing to the private sector + Net factor income from abroad + National debt interest + Current transfers from government + Other net transfers from the rest of the world.

GROSS NATIONAL DISPOSABLE INCOME :

➡Gross National Disposable Income is the sum of the disposable incomes of all resident institutional units/ sectors.

➡Gross National Disposable Income (GNDI) = GNPmp + Net current transfer received from rest of the world.

Note: Net current transfer received from rest of the world is the difference between the current transfer received from rest of the world and current transfers paid to rest of the world.

Note: Current transfers from government are not included as they are simply transfers within the economy.