



Lecture No.- 01

SAMPURNA JUNE 2024

**BUSINESS ECONOMICS**

**Chapter - 5**

**Determination of  
National Income**

By- LOVE KAUSHIK SIR



# TOPICS TO BE COVERED

## unit - 1

1) National Income Accounting

DPP

4 classes

M  
 T<sup>x</sup>  
 W  
 T<sup>x</sup>  
 F  
 S<sup>x</sup>  
 S<sup>x</sup>





- Class
- module — line by line ✓
- Short - Notes → by self

# Income

Transfer  
Income

Factor Income

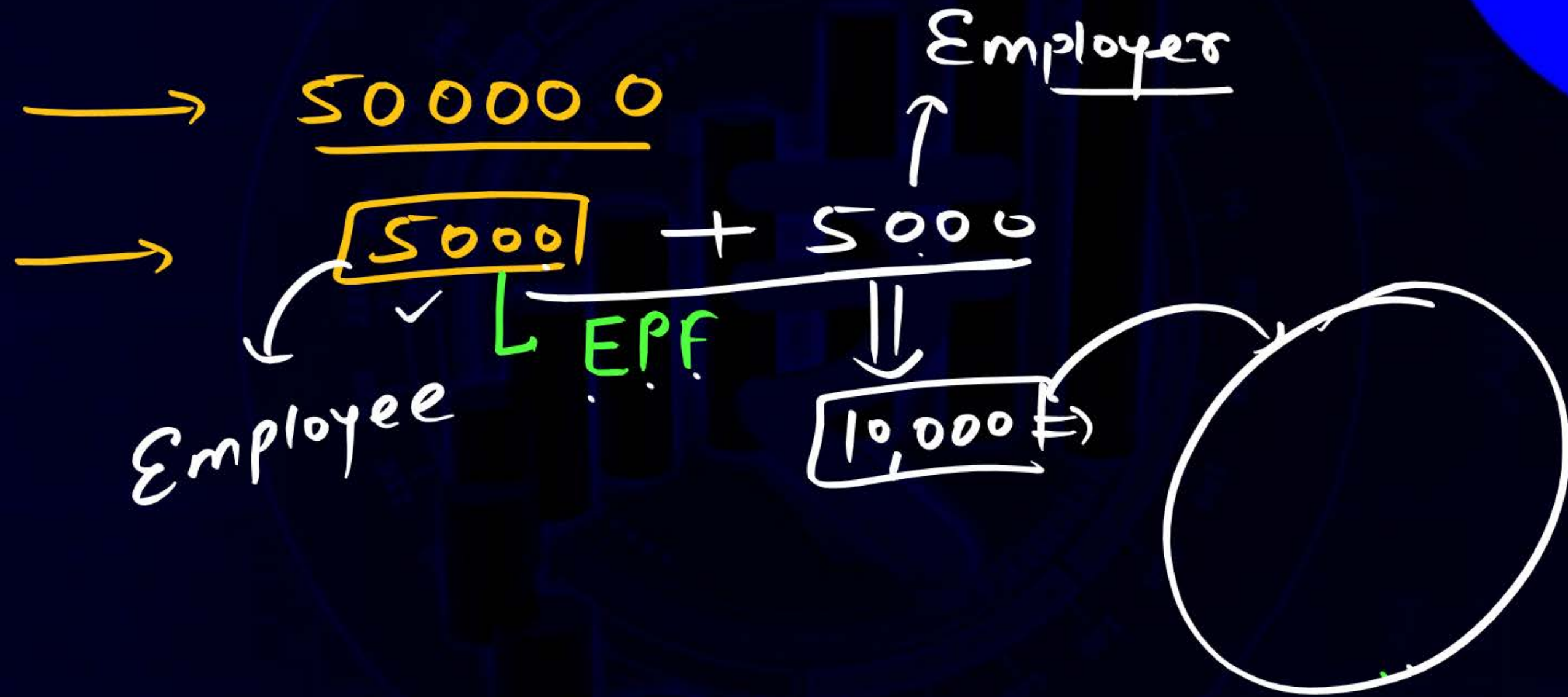
↓  
Pocket money  
Gift, Scholarship  
old-age pension  
Tax etc.

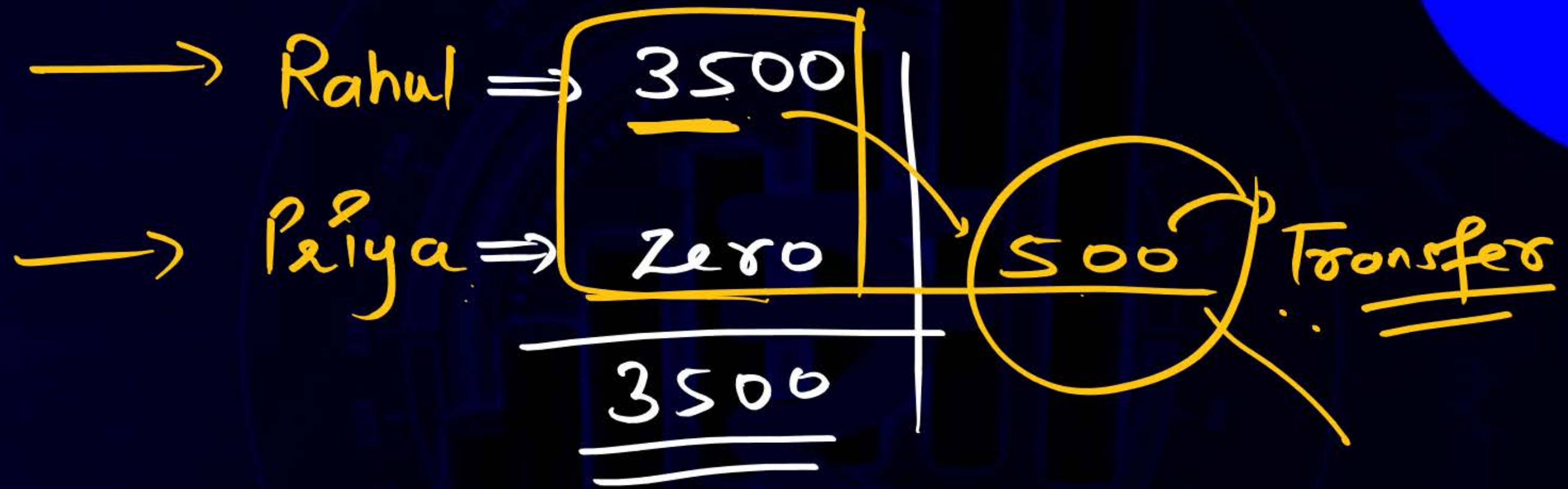
Pension  
Rent  
wages, interest,  
Profit, Bonus etc.

Land  
Labour  
Capital  
Entrepreneur











obtain → mila

Earn → Arjit | Kamayaa



### Transfer Income

### Factor Income

① It is the income obtained without providing any factor input.

It is the income earned by providing factor input.

② It is a one-sided income i.e. unilateral concept.

It is two-sided income i.e. bilateral concept.

③ It is an unearned income.

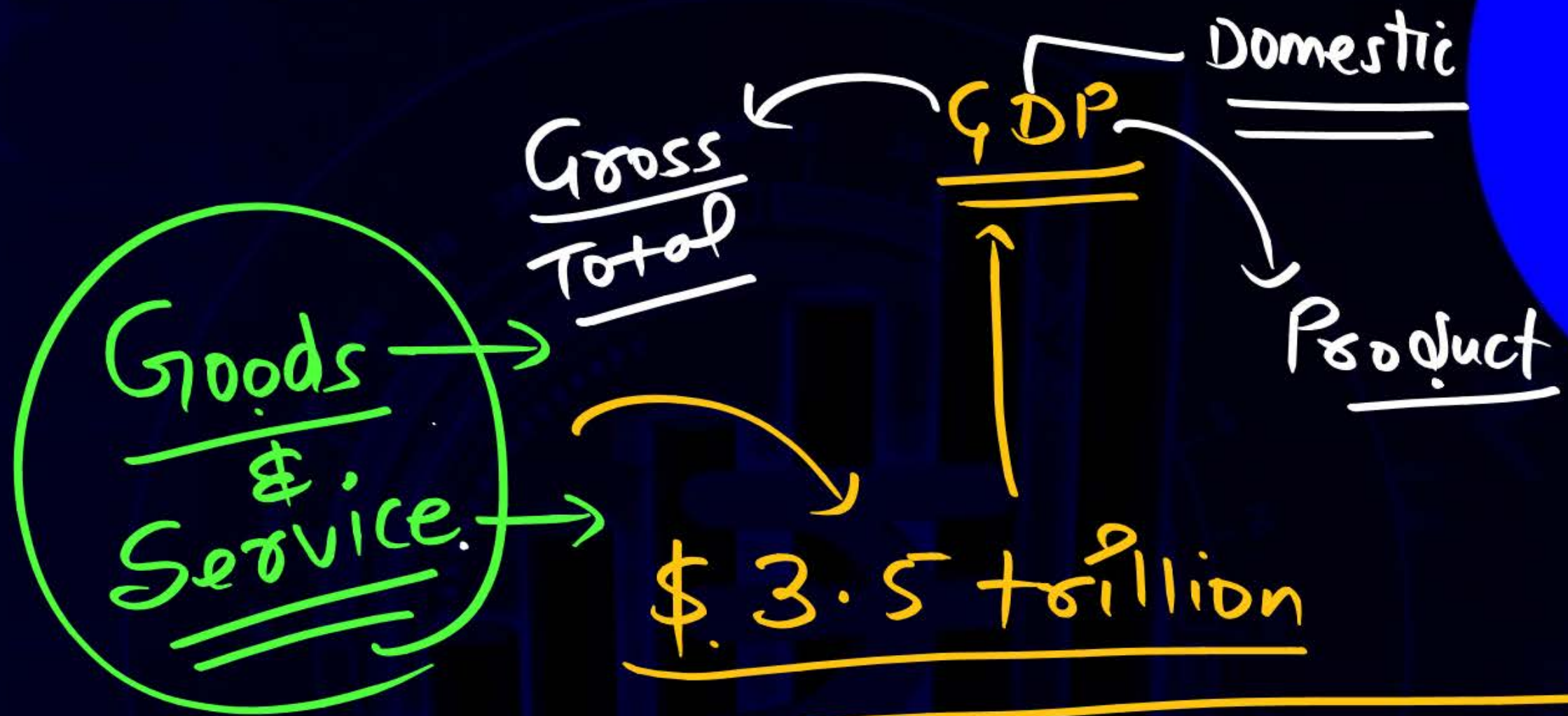
It is earned income.

④ It is not included in the calculation of national income.

It is included in the calculation of national income.

⑤ Examples:- Gifts, Pocket Money etc.

Examples:- Rent, Interest etc.



$$3.5\ 000\ 000\ 000\ 000\ 000 \times \underline{\underline{82}}$$



## Topic: GDP

GDP is sum total of the money value of all goods & services produced within domestic boundary of a country during a fiscal year.

# Topic: GDP

GDP ↑ → welfare ↑



# Topic: GDP

Person  
 ↑  
 Per Capita

$$\text{GDP} = \frac{\text{GDP}}{\text{Total population}}$$

Q

$$\Rightarrow \text{GDP} = 1000$$

$$\text{Pop}^n = 100$$

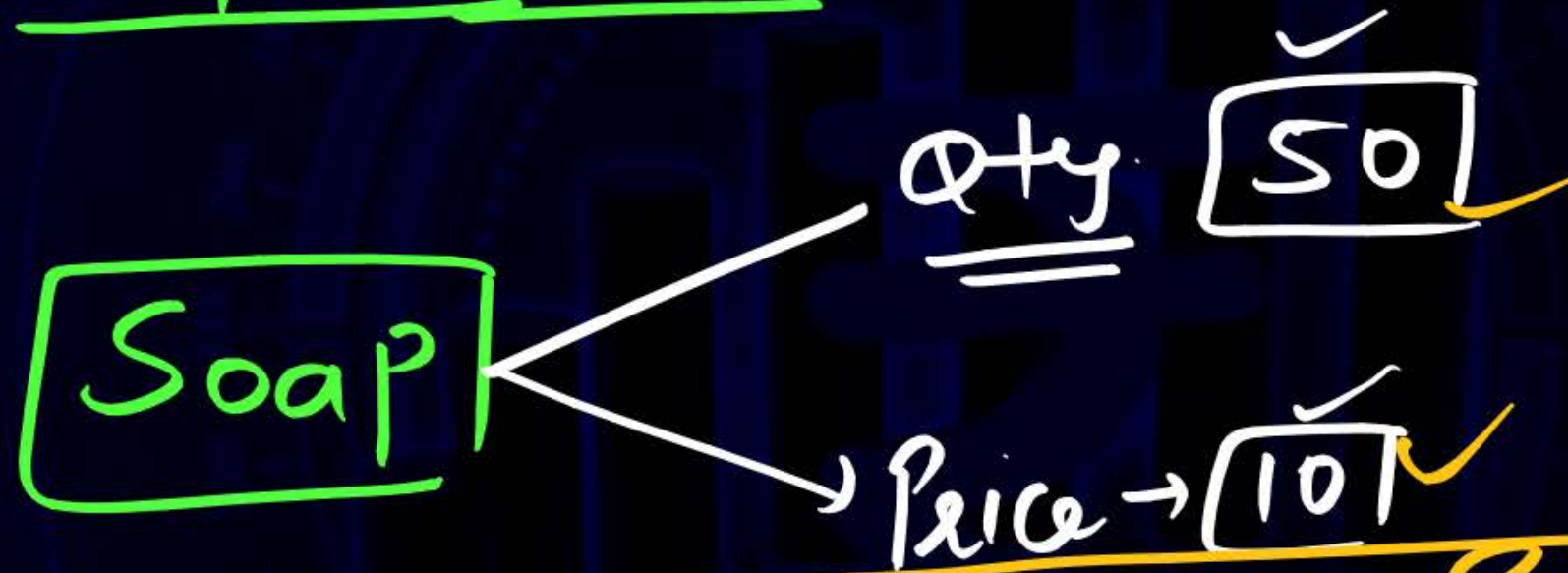
$$\Rightarrow \text{Per Capita GDP} = \frac{1000}{100} = \boxed{10} \checkmark$$

$$\underline{50 \times 10} = \underline{500}$$

↓

GDP

only one item



$$GDP = \text{General Price Level} \times \text{Qty of Output}$$



Year

2009

2010

2011

Qty	P	Nominal GDP	Real GDP
<u>100</u>	<u>10</u>	<u>1000</u>	<u>1000</u>
<u>100</u>	15	1500	<u>1000</u>
<u>50</u>	20	1000	<u>500</u>

GDP at current prices

GDP at constant prices / Base year price

Real GDP changes only due to change in physical Qty of output only.

Old  
year

↓  
Comparison year → Reference year  
↓  
Base year



$$\underline{\text{Nominal GDP}} = \text{Current year Prices} \times \text{Qty. of Output}$$

$$\text{Real GDP} = \text{Base year Price} \times \text{Qty. of Output}$$

GDP Deflator = Price Index

$$= \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$



$$\text{Price index} = \frac{\overset{\checkmark 100}{\text{Nominal GDP}}}{\underset{\checkmark 50}{\text{Real GDP}}} \times 100$$

$$\text{Price index}^{150} = \frac{\text{Nominal GDP}}{\text{Real GDP}^{50}} \times 100$$



$$\text{Price index}^{\textcircled{100}} = \frac{\overset{\text{100}}{\text{Nominal GDP}}}{\boxed{\text{Real GDP}}} \times 100$$

Compute change  
in price  
level

100  $\Rightarrow$  No change in  
price level

$$\text{GDP Deflator} = \text{Price Index}$$





The nominal and real GDP respectively of a country in a particular year are ₹ 3000 Crores and ₹ 4700 Crores respectively. Calculate GDP deflator and comment on the level of prices of the year in comparison with the base year.

$$= \frac{N}{R} \times 100$$

$$= \frac{3000}{4700} \times 100 = \underline{\underline{63.83}}$$

36.17% ↓

Find nominal GDP if real GDP = 450 and price index = 120

$$120 = \frac{N}{450} \times 100$$

$$\frac{120}{100} \times 450 = N$$

$$\underline{540 = N}$$



Suppose nominal GNP of a country in 2010 is given at ₹ 600 Crores and price index is given as base year 2010 is 100. Now let the nominal GDP increases to ₹ 1200 Crores in 2018 and the price index rises to 110, find out real GDP?

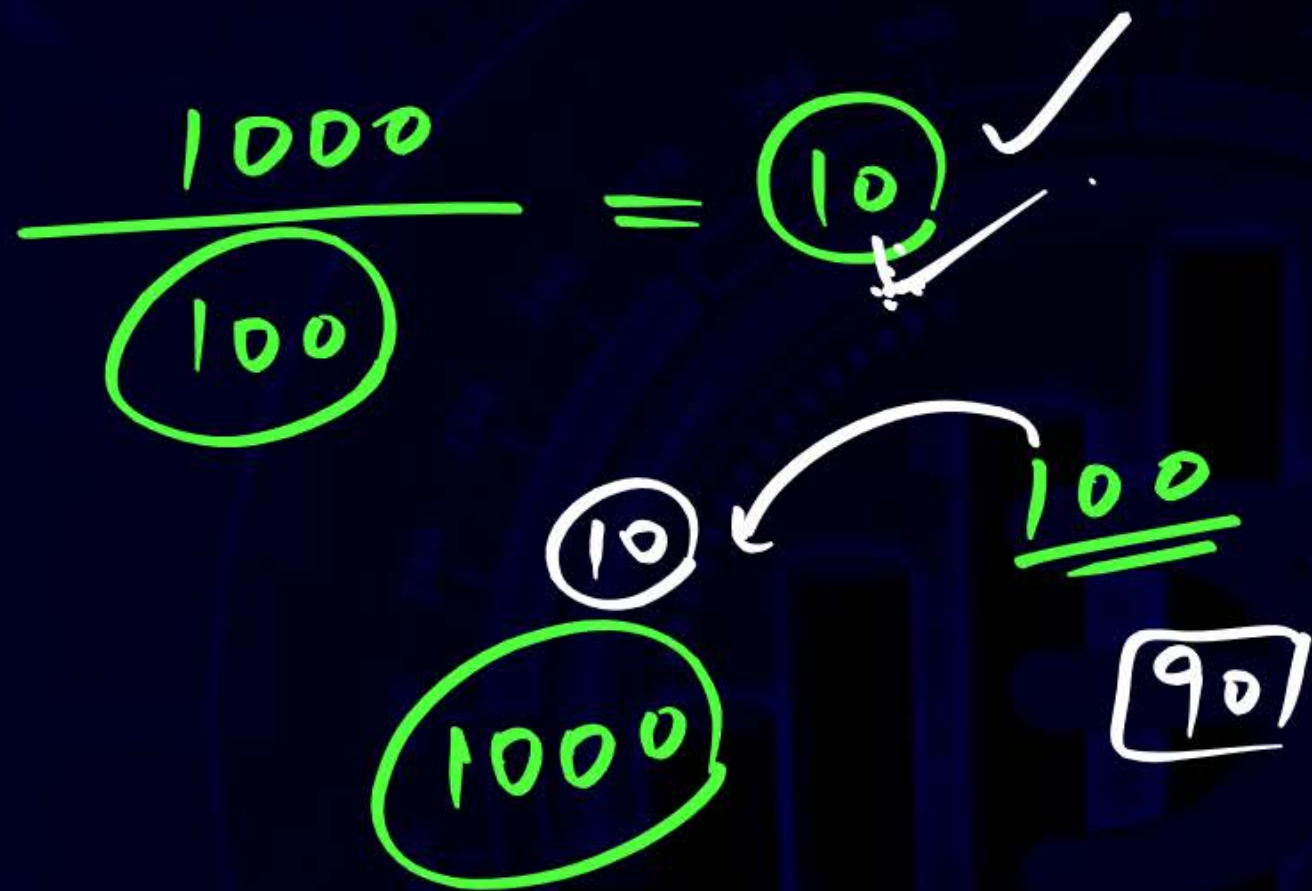
$$100 = \frac{600}{R} \times 100$$

$$R = \frac{600}{100} \times 100 = \underline{\underline{600}}$$

$$110 = \frac{1200}{R} \times 100$$

$$R = \frac{1200}{110} \times 100$$

$$= \underline{\underline{1090.9}}$$

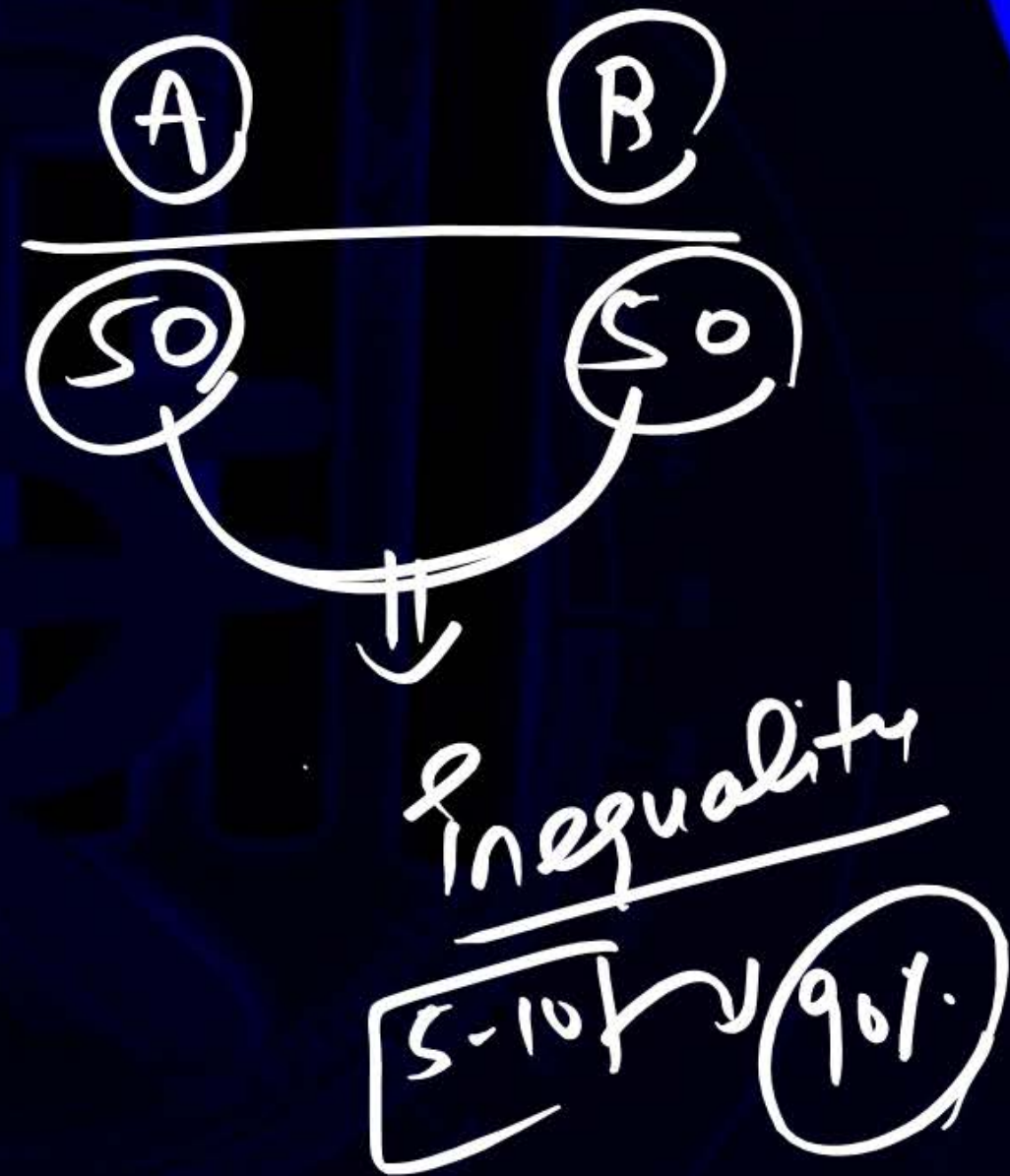


Welfare  
⇓  
well-being  
⇓  
better-off

→ happiness



<u>(A)</u>	<u>(B)</u>
<del>100¢</del>	<del>100¢</del>
<hr/>	<hr/>
2¢	10¢
<hr/>	<hr/>
= (50)	(10)





# Topic: GDP & Welfare

GDP excludes the following -

page no. 6.27

- (a) Income distributions and, therefore, GDP per capita is a completely inadequate measure of welfare. Countries may have significantly different income distributions and, consequently, different levels of overall well-being for the same level of per capita income.
- (b) Quality improvements in systems and processes due to technological as well as managerial innovations which reflect true growth in output from year to year.
- (c) Productions hidden from government authorities, either because those engaged in it are evading taxes or because it is illegal (drugs, gambling etc.).

Choti



- (d) Non-market production (with a few exceptions) and Non-economic contributors to well-being for example: health of a country's citizens, education levels, political participation, or other social and political factors that may significantly affect well-being levels.
- (e) The disutility of loss of leisure time. We know that, other things remaining the same, a country's GDP rises if the total hours of work increase.
- (f) Economic 'bads' for example: crime, pollution, traffic congestion etc which make us worse off. ✓ *give* ✓ *Salary*
- (g) The volunteer work and services rendered without remuneration *Started* undertaken in the economy, even though such work can contribute to social well-being as much as paid work.



- (h) Many things that contribute to our economic welfare such as, leisure time, fairness, gender equality, security of community feeling etc.,
- (i) Both positive and negative externalities which are external effects that do not form part of market transactions
- (j) The distinction between production that makes us better off and production that only prevents us from becoming worse off, for e.g. defence expenditures such as on police protection. Increased expenditure on police due to increase in crimes may increase GDP but these expenses only prevent us from becoming worse off. However, no reflection is made in national income of the negative impacts of higher crime rates. As another example, automobile accidents result in production of repairs, output of medical services, insurance, and legal services all of which are production included in GDP just as any other production.



→ Externalities (out of Control)  
Outside

→ Protection → Defence


# QUIZ!



#Q. The <sup>GDP</sup>~~out~~ at current year price is called :

1. Nominal GDP. (A)
2. Real GDP
3. National GDP
4. None of the above

#Q. Which of the following is an example of transfer payment?


1. Old age pensions and family pensions
2. Scholarships given to deserving diligent students
3. Compensation given for loss of property due to floods
4. All the above. 



#Q. Real GDP shows:

1. Change in price only
2. Change in output only. **B**
3. Change in both price and output → Nominal
4. None of the above

#Q. Nominal GDP shows:

1. Change in price only
2. Change in output only
3. Change in both price and output 
4. None of the above



#Q. Which of the following is an example of transfer payment?

1. Old age pensions and family pensions
2. Scholarships given to deserving diligent students.
3. Compensation given for loss of property due to floods
4. All the above



## 2 mins Summary

GDP





Thank You



MARKET

PROFIT

SERVICE

Vertical text on the right side of the slide, including a list of numbers and a logo.