



NATIONAL INCOME ACCOUNTING:

CONCEPTS, AGGREGATES,
AND MEASUREMENT

WHAT'S INSIDE?



FUNDAMENTAL CONCEPTS

Understand the basic ideas and definitions of National Income Accounting.



MAJOR AGGREGATES

Explore all key aggregates and their relationships.



MEASUREMENT METHODS

Learn different methods of measuring National Income.



CONCEPTS IN DEPTH

Detailed coverage of circular flow, market price vs. factor cost, and related concepts.



EXAM FOCUSED

Important points and high-yield content for competitive exams.



CLEAR CONCEPTS

Build a strong foundation.



COMPREHENSIVE COVERAGE

From basics to advanced topics.



EXAM ORIENTED

Curated for UPSC, State PCS, UGC-NET and other exams.



LEARN EFFECTIVELY

Concept maps, tables & easy explanations.





NATIONAL INCOME



1. MEANING

National Income refers to the total monetary value of all final goods and services produced within a country during a specific period of time, usually a year.



Production of Goods & Services



By the Residents of a Country

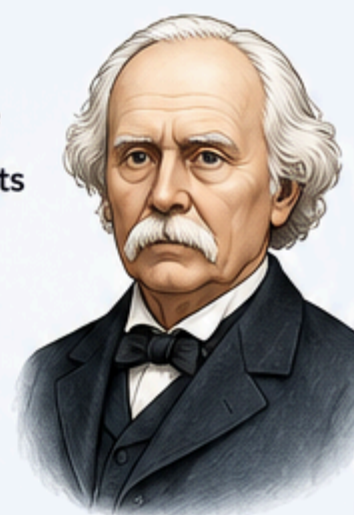


Measured in Monetary Terms

2. DEFINITION

According to Prof. Alfred Marshall:

“National Income is the sum total of the net income earned by the normal residents of a country from the production and services performed within the economic territory of the country during a given period of time, usually a year.”



3. CONCEPT



Total

It is the total of all final goods and services produced.



Monetary Value

It is measured in terms of money.



Within the Country

It includes production that takes place within the economic territory.



By the Residents

It includes income earned by the normal residents of the country.



During a Period

It is calculated for a specific period of time, usually a year.



Final Goods & Services

It includes only final goods and services, not intermediate goods and services.

4. EXAMPLES

The following are included in National Income:



Agricultural Production

Value of crops like wheat, rice, vegetables produced within the country.



Industrial Production

Value of goods produced in factories like machines, textiles, cement, etc.



Service Sector

Income from services like teaching, banking, transport, tourism, healthcare, etc.



Trade & Commerce

Income earned through buying and selling of goods within the country.



Rent & Interest

Income earned from rent on property and interest on loans or deposits.



Government Services

Value of services provided by the government like defence, police, administration.



Note: It does not include transfer payments such as pensions, scholarships, unemployment benefits, etc., because they do not arise from current production.



THE CIRCULAR FLOW OF INCOME

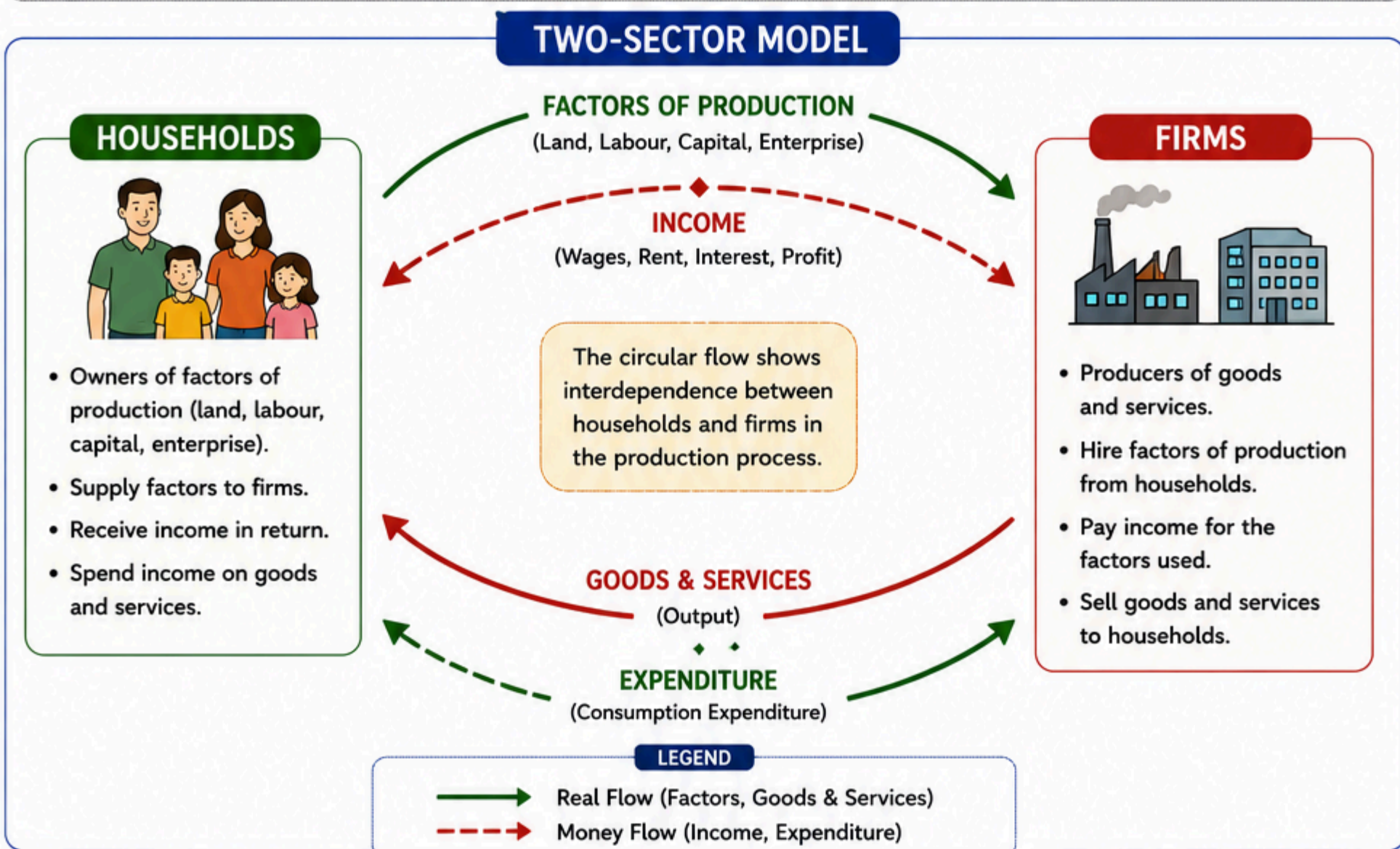


MEANING

The Circular Flow of Income is the continuous flow of **income**, **goods and services**, and **expenditure** between the two main sectors of an economy—**Households** and **Firms**. It shows how money moves in a circular path in the economy.



TWO-SECTOR MODEL



FEATURES



It is a continuous and circular process.



It explains the interdependence between households and firms.



It involves both real flow and money flow.



It forms the basis of National Income.



It assumes a simple economy with only two sectors.

SIGNIFICANCE



Shows how income is generated and used in the economy.



Helps in understanding the working of an economic system.



Provides a basis for measuring National Income.



Useful for economic planning and policy making.

EXAMPLES



NOTE



In the real world, the economy has more than two sectors (government, foreign sector, financial institutions, etc.), but this is the simplest form to understand the basic idea.



CORE AGGREGATES OF NATIONAL INCOME



MEANING

National Income is measured through a set of aggregates that help us understand the total income earned and expenditure made in the production of final goods and services within a country during a given period, usually a year.



AGGREGATE	FULL FORM	MEANING	INCLUDES	EXCLUDES	FORMULA
1. GDP at Market Price 	Gross Domestic Product at Market Price	The total monetary value of all final goods and services produced within the domestic territory of a country in a year.	- Final goods & services - Produced within the country - Market price includes taxes and subsidies	- Intermediate goods - Goods & services produced outside the country - Transfer payments	$GDP_{MP} = \sum (\text{Value of all final goods \& services at market price})$
2. GDP at Factor Cost 	Gross Domestic Product at Factor Cost	The total value of final goods and services produced within the domestic territory, measured at the cost incurred by factors of production.	- Final goods & services - Produced within the country - Factor incomes (wages, rent, interest, profit)	- Indirect taxes - Subsidies	$GDP_{FC} = GDP_{MP} - \text{Indirect Taxes} + \text{Subsidies}$
3. GNP at Market Price 	Gross National Product at Market Price	The total monetary value of final goods and services produced by the normal residents of a country, wherever located, during a year.	- Output by residents of the country - From domestic as well as foreign territories - Market price includes taxes and subsidies	- Output by non-residents in the country - Intermediate goods - Transfer payments	$GNP_{MP} = GDP_{MP} + \text{Net Factor Income from Abroad (NFIA)}$
4. GNP at Factor Cost 	Gross National Product at Factor Cost	The total value of final goods and services produced by the residents of a country, measured at the cost incurred by factors of production.	- Factor incomes earned by residents - From domestic and foreign territories	- Indirect taxes - Subsidies	$GNP_{FC} = GNP_{MP} - \text{Indirect Taxes} + \text{Subsidies}$
5. NNP at Factor Cost 	Net National Product at Factor Cost	The value of GNP at factor cost minus depreciation.	- Net value of goods & services - After deducting depreciation	- Depreciation (Consumption of Fixed Capital) - Indirect taxes and subsidies	$NNP_{FC} = GNP_{FC} - \text{Depreciation}$
6. NDP at Market Price 	Net Domestic Product at Market Price	The value of GDP at market price minus depreciation.	- Net value of goods & services - After deducting depreciation	Depreciation (Consumption of Fixed Capital)	$NDP_{MP} = GDP_{MP} - \text{Depreciation}$

KEY POINTS

- All aggregates are measured for a specific period, usually a financial year.
- GDP measures production within the country; GNP measures by the residents of the country.
- Market Price includes taxes and subsidies; Factor Cost excludes them.
- NNP and NDP are net of depreciation.

RELATIONSHIP BETWEEN AGGREGATES

- $GDP_{MP} = GDP_{FC} + \text{Indirect Taxes} - \text{Subsidies}$
- $GNP_{MP} = GDP_{MP} + \text{NFIA}$
- $GNP_{FC} = GNP_{MP} - \text{Indirect Taxes} + \text{Subsidies}$
- $NNP_{FC} = GNP_{FC} - \text{Depreciation}$
- $NDP_{MP} = GDP_{MP} - \text{Depreciation}$

NFIA (Net Factor Income from Abroad) = Factor Income earned by residents abroad – Factor Income earned by non-residents in India

NOTE



These aggregates help in understanding the size, performance and growth of an economy and are essential for economic planning and policy making.





MARKET PRICE VS. FACTOR COST



MEANING

Goods and services are valued either at Market Price or Factor Cost.

- Market Price includes taxes and subsidies.
- Factor Cost excludes taxes and subsidies and shows the payment made to factors of production.



1. MARKET PRICE (MP)

The price actually paid by the buyer in the market for a good or service.

INCLUDES

- Basic Price (Price received by producer)
- Indirect Taxes (e.g., GST, Excise Duty)
- Trade Margins (transport, storage, etc.)
- Other Charges
- Minus Subsidies (if any)



2. FACTOR COST (FC)

The total payment made to the factors of production for their services in producing goods and services.

INCLUDES

- Wages and Salaries (for Labour)
- Rent (for Land)
- Interest (for Capital)
- Profit (for Entrepreneurship)



3. DIFFERENCE BETWEEN MARKET PRICE AND FACTOR COST



BASIS	MARKET PRICE (MP)	FACTOR COST (FC)
Meaning	Price paid by the buyer in the market.	Payment made to factors of production.
Includes	Indirect taxes, subsidies, trade margins, other charges.	Only factor incomes: wages, rent, interest, profit.
Excludes	Nothing (all charges are included).	Indirect taxes, subsidies, trade margins, other charges.
Who Pays / Receives	Paid by buyers to producers.	Received by factors of production.
Used In	GDP _{MP} , GNP _{MP} , NDP _{MP}	GDP _{FC} , GNP _{FC} , NDP _{FC}
Purpose	Shows the value including government's fiscal operations and trade margins.	Shows the real income of factors of production from production.

4. RELATIONSHIP BETWEEN MARKET PRICE AND FACTOR COST

At Market Price:

$$MP = FC + \text{Indirect Taxes} + \text{Subsidies} + \text{Trade Margins} + \text{Other Charges}$$

At Factor Cost:

$$FC = MP - \text{Indirect Taxes} - \text{Subsidies} - \text{Trade Margins} - \text{Other Charges}$$



5. EXAMPLES

Item	At Market Price (₹)	At Factor Cost (₹)
Wheat	25 (includes GST, transport)	20 (payment to farmers)
Shirt	1180 (includes GST, store margin)	1000 (wages, rent, profit, etc.)
Mobile Phone	11800 (includes taxes, margins)	10000 (factor incomes only)

6. SIGNIFICANCE

- ✓ Helps in measuring national income accurately.
- ✓ Market Price shows the effect of government policy (taxes and subsidies).
- ✓ Factor Cost shows the real income distributed to factors.
- ✓ Both are important for economic analysis and policy making.



NOTE

- GDP at Market Price is higher than GDP at Factor Cost if (Taxes + Trade Margins + Other Charges) > Subsidies.
- GDP at Market Price is lower than GDP at Factor Cost if Subsidies > (Taxes + Trade Margins + Other Charges).
- In most practical situations, $GDP_{MP} \geq GDP_{FC}$.





NOMINAL GDP, REAL GDP, AND THE GDP DEFLATOR



MEANING

These concepts help us understand economic growth and inflation.

- Nominal GDP is GDP measured at current prices.
- Real GDP is GDP measured at constant (base year) prices.
- GDP Deflator shows the overall price level in the economy.



1. NOMINAL GDP (CURRENT GDP)

It is the value of final goods and services produced in the economy during a year measured at current market prices.



Key Points

- Measured at current prices.
- Affected by both changes in output and changes in prices.
- Also called GDP at current prices.

2. REAL GDP (CONSTANT GDP)

It is the value of final goods and services produced in the economy during a year measured at constant (base year) prices.

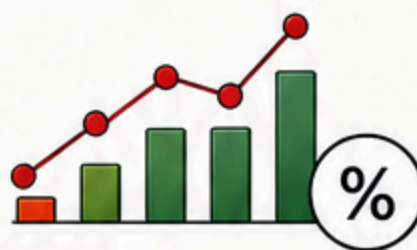


Key Points

- Measured at constant prices.
- Reflects only changes in the quantity of goods and services produced.
- Also called GDP at constant prices.

3. GDP DEFLATOR

It is an index that shows the average change in prices of all final goods and services produced in the economy.



Key Points

- Measures the overall price level.
- Shows how much prices have changed compared to a base year.
- Used to convert Nominal GDP into Real GDP and vice versa.

4. RELATIONSHIP BETWEEN THEM

Nominal GDP
(Current Prices)

=

Real GDP
(Constant Prices)

×

GDP Deflator
(Price Index)

÷ 100

Therefore,

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

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

Where,

- Base Year Deflator = 100
- Base Year GDP (Nominal) = Base Year GDP (Real)

5. NUMERICAL EXAMPLE

Suppose the following data:

Year	Nominal GDP (₹ Crore)	GDP Deflator (Base Year = 100)
2021 (Base Year)	100,000	100
2022	115,000	115
2023	132,250	125

Calculate Real GDP:

Year	Nominal GDP	GDP Deflator	Real GDP $\left(\frac{\text{Nominal GDP} \times 100}{\text{GDP Deflator}}\right)$
2021	100,000	100	100,000
2022	115,000	115	100,000
2023	132,250	125	105,800

- From 2021 to 2023, Nominal GDP increased from ₹100,000 to ₹132,250 crore.
- But Real GDP increased only from ₹100,000 to ₹105,800 crore.
- This means the growth in real output is 5.8%, while the price level also increased.



6. IMPORTANCE

- Helps in measuring true economic growth.
- Removes the effect of inflation from income measurement.
- Useful for comparing GDP over different periods.
- Essential for economic policy making and planning.

7. DIFFERENCE AT A GLANCE

Basis	Nominal GDP	Real GDP	GDP Deflator
Meaning	GDP at current prices	GDP at constant prices	Index of overall price level
Shows	Total value with price effect	Only change in output	Change in prices
Affected by	Output and Prices	Only Output	Only Prices
Use	Current value measurement	Growth and comparison over time	To convert Nominal GDP to Real GDP
Base Year	Not required	Required	Required (=100)

8. NOTE



- If GDP Deflator > 100 → Prices have risen.
- If GDP Deflator < 100 → Prices have fallen.
- If Nominal GDP grows faster than Real GDP, inflation is rising.
- If Real GDP grows but Nominal GDP grows slower, prices are falling.



METHODS OF CALCULATING NATIONAL INCOME



MEANING

National Income can be calculated in three different ways, because every transaction has a double aspect. These methods are called the three approaches to National Income.



1. PRODUCTION (OR OUTPUT) METHOD

It calculates National Income by summing up the value of all final goods and services produced in the economy during a given period.



- Only final goods and services are included.
- Intermediate goods are excluded to avoid double counting.
- Measured either at Market Price or Factor Cost.

Formula (Market Price)

$$GDP_{MP} = \sum (\text{Value of Final Goods \& Services at Market Price})$$

Formula (Factor Cost)

$$GDP_{FC} = \sum (\text{Value of Final Goods \& Services at Factor Cost})$$

2. INCOME METHOD

It calculates National Income by adding up all incomes generated in the production process.



- Involves adding all factor incomes.
- Measured either at Market Price or Factor Cost.

Formula (Factor Cost)

$$GDP_{FC} = \text{Wages} + \text{Rent} + \text{Interest} + \text{Profit}$$

Formula (Market Price)

$$GDP_{MP} = GDP_{FC} + \text{Indirect Taxes} - \text{Subsidies}$$

3. EXPENDITURE METHOD

It calculates National Income by adding up all expenditures incurred on final goods and services in the economy.



Consumption (C) Investment (I) Government Expenditure (G) Net Exports (X - M)

- Includes all final expenditures.
- Measured at Market Prices.

Formula

$$GDP_{MP} = C + I + G + (X - M)$$

Where,

- C = Private Final Consumption Expenditure
- I = Gross Domestic Capital Formation
- G = Government Final Consumption Expenditure
- X = Exports of Goods & Services
- M = Imports of Goods & Services

4. EQUIVALENCE OF THE THREE METHODS

In a closed economy (without considering statistical discrepancies), all three methods give the same value of National Income.



5. ADVANTAGES

- Comprehensive Measurement**
Helps in measuring the total economic activity of the country.
- Multiple Perspectives**
Provides a complete picture of the economy from production, income, and expenditure sides.
- Consistency Check**
If all three methods give the same result, it increases the accuracy of data.

6. LIMITATIONS

- Data Difficulties**
Accurate and complete data collection is time-consuming and costly.
- Double Counting**
If intermediate goods are included, it leads to double counting (especially in Output Method).
- Estimation & Discrepancies**
There are always some statistical discrepancies in real-world data.

7. NUMERICAL EXAMPLE

Suppose in an economy:

Consumption (C)	= ₹ 600 crore
Investment (I)	= ₹ 200 crore
Government Expenditure (G)	= ₹ 150 crore
Exports (X)	= ₹ 250 crore
Imports (M)	= ₹ 150 crore

Expenditure Method:

$$GDP_{MP} = C + I + G + (X - M)$$
$$= 600 + 200 + 150 + (250 - 150)$$
$$= ₹ 1,050 \text{ crore}$$

Income Method (Factor Cost):

Wages & Salaries	= ₹ 400 crore
Rent	= ₹ 150 crore
Interest	= ₹ 100 crore
Profit	= ₹ 250 crore

$$GDP_{FC} = 400 + 150 + 100 + 250$$
$$= ₹ 900 \text{ crore}$$

Suppose, Indirect Taxes	= ₹ 180 crore
Subsidies	= ₹ 30 crore

$$GDP_{MP} = GDP_{FC} + \text{Indirect Taxes} - \text{Subsidies}$$
$$= 900 + 180 - 30 = ₹ 1,050 \text{ crore}$$

Output Method (Market Price):

$$\text{Value of Final Goods \& Services (at Market Price)} = ₹ 1,050 \text{ crore}$$

Thus, all three methods yield the same National Income (₹ 1,050 crore at Market Price).



Note: In practice, small differences may arise due to statistical discrepancies, but they are adjusted to make the three methods equal.





PERSONAL INCOME AND PERSONAL DISPOSABLE INCOME



MEANING

Personal Income refers to the total income received by individuals and households from all sources before personal taxes.
Personal Disposable Income is the income left with individuals after paying personal taxes; it is available for spending and saving.



1. PERSONAL INCOME (PI)

It is the total income received by individuals and households from all sources before payment of personal taxes.

COMPONENTS

- Compensation of Employees (Salaries, Wages, Bonuses, etc.)
- Net Income from Property (Rent, Interest, Dividends, etc.)
- Net Income from Self-Employment (Profits earned by own unincorporated business)
- Current Transfer Receipts (Pensions, Scholarships, Unemployment benefits, etc.)
- Income from Abroad (Less: Income sent to Abroad)

FORMULA

PI = CE + NIP + NISE + CTR + (IFA - IFA_{out})

- Where,
- CE = Compensation of Employees
 - NIP = Net Income from Property
 - NISE = Net Income from Self-Employment
 - CTR = Current Transfer Receipts
 - IFA = Income from Abroad
 - IFA_{out} = Income sent to Abroad

2. PERSONAL DISPOSABLE INCOME (PDI)

It is the income available with individuals and households after paying personal taxes.

DEDUCTIONS FROM PERSONAL INCOME

- Personal Taxes (Direct taxes paid by individuals on their income)
- Non-Tax Payments (Life insurance premium, provident fund contribution, etc.)
- Other Current Transfers to Others (Alimony, donations, etc.)



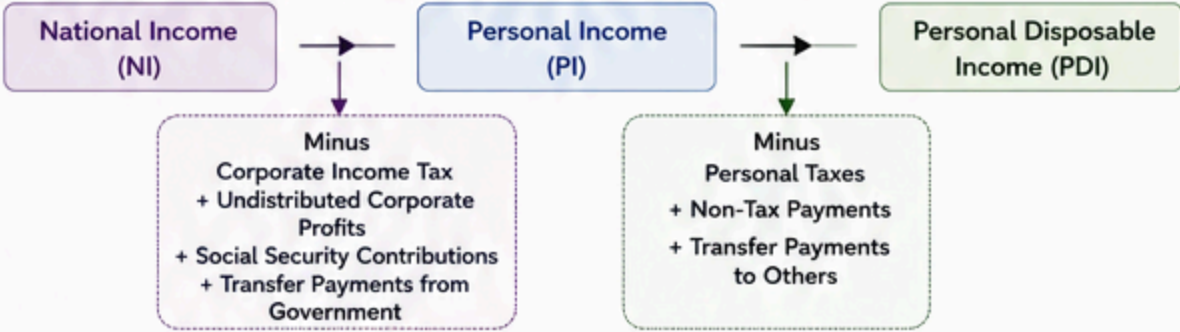
FORMULA

PDI = PI - (PT + NTP + TTO)

- Where,
- PI = Personal Income
 - PT = Personal Taxes
 - NTP = Non-Tax Payments
 - TTO = Transfer Payments to Others

3. RELATIONSHIP BETWEEN NATIONAL, PERSONAL AND DISPOSABLE INCOME

- National Income is the total income earned by all factors of production in the economy.
- Personal Income is a part of National Income earned by individuals and households.
- Disposable Income is the part of Personal Income left after paying personal taxes and non-tax payments.



4. NUMERICAL EXAMPLE

Suppose the following:

Compensation of Employees	₹ 2,00,000
Net Income from Property	₹ 50,000
Net Income from Self-Employment	₹ 75,000
Current Transfer Receipts	₹ 25,000
Income from Abroad	₹ 10,000
Income sent to Abroad	₹ 5,000



Calculation:

Personal Income (PI)
= 2,00,000 + 50,000 + 75,000
+ 25,000 + (10,000 - 5,000)
= ₹ 3,55,000

Deductions:
Personal Taxes = ₹ 40,000
Non-Tax Payments = ₹ 15,000
Transfer Payments to Others = ₹ 10,000
Total Deductions = ₹ 65,000

Personal Disposable Income (PDI)
= PI - Total Deductions
= 3,55,000 - 65,000 = ₹ 2,90,000

5. SIGNIFICANCE

- Helps in measuring the income available for consumption and saving by individuals.
- Indicates the living standard and welfare of people.
- Useful for studying consumption patterns and savings behavior.
- Helps the government in framing tax policies and welfare programs.
- An important tool for economic analysis and policy making.



NOTE: Personal Disposable Income represents the actual purchasing power of individuals and determines the level of consumption and savings in the economy.



LIMITATIONS OF GDP AS AN INDICATOR OF WELFARE



MEANING

GDP measures the market value of all final goods and services produced in a country, but it does not fully capture the well-being or quality of life of a nation's people.



WHY GDP HAS LIMITATIONS?

While GDP is a useful tool for measuring economic activity and comparing economies, it has several limitations as a true indicator of welfare or living standards.

1 Ignores Income Distribution



- GDP does not show how income is distributed among people.
- A high GDP can exist with wide inequality and poverty.

2 Does Not Measure Non-Market Activities



- Household work, voluntary services, and unpaid care are not included.
- These activities contribute to welfare but are not recorded in GDP.

3 Ignores Quality of Life



- GDP does not account for health, education, leisure, happiness, and social relationships.
- Two countries with the same GDP may have very different quality of life.

4 Does Not Consider Environmental Degradation



- GDP increases with activities that harm the environment.
- Cost of pollution, depletion of resources, and climate damage are ignored.

5 Includes Negative Activities



- Expenditure on crimes, accidents, natural disasters, and repairs increases GDP.
- These do not add to welfare; in fact, they reduce it.

6 Ignores Leisure and Free Time



- GDP does not value leisure time or the freedom to enjoy life.
- More production does not always mean more welfare.

7 Does Not Reflect Sustainability



- GDP focuses on current production, not the sustainability of future generations.
- It ignores whether growth is maintained without exhausting resources.

8 Affected by Price Changes (Inflation)



- Nominal GDP increases with inflation, even if real output does not increase.
- It may give a false picture of economic progress.

9 Not Suitable for Comparing Welfare Across Countries



- Cost of living, prices, culture, and social systems differ across countries.
- The same GDP level may imply different welfare levels.

10 Ignores Non-Economic Aspects of Welfare



- Political freedom, security, justice, and social inclusion are not measured.
- These are essential parts of human welfare.

ALTERNATIVES AND COMPLEMENTS TO GDP

- ✓ **HDI (Human Development Index):** Considers health, education, and standard of living.
- ✓ **GPI (Genuine Progress Indicator):** Adjusts GDP by considering environmental and social factors.
- ✓ **Happy Planet Index:** Combines well-being with environmental impact.
- ✓ **Multidimensional Poverty Index (MPI):** Measures poverty beyond income.
- ✓ **Better Life Index (OECD):** Includes housing, jobs, education, community, environment, and life satisfaction.



CONCLUSION

GDP is a crucial measure of economic activity, but it is an incomplete indicator of welfare. A high GDP does not automatically mean high well-being. For a true assessment of welfare, we must consider social, environmental, and qualitative factors along with economic growth.



Remember:

More GDP means more production, but more welfare means a better quality of life.



NOTE:

GDP tells us how much we produce, but not how well we live.
Welfare depends on much more than just income!





QUICK EXAMINATION
= **FACTS** =



REMEMBER

- Small facts
- Build strong memory
- High scores!

NATIONAL INCOME – The total value of all final goods and services produced in a country in a year.
MEASUREMENT – Calculated to assess the economic performance and welfare of a country.
PURPOSE – Helps in planning, policy making, comparison over time and between countries.

QUICK EXAMINATION FACTS

● Meaning: National Income is the total value of final goods and services produced in an economy in a given year.		● Nominal GDP: Measured at current prices.	
● Concept: Measures the size and health of an economy.		● Real GDP: Measured at constant (base year) prices.	
● Final Goods: Only final goods and services are included to avoid double counting.		● GDP Deflator: Index of price level. GDP Deflator = (Nominal GDP / Real GDP) × 100	
● Intermediate Goods: Excluded because they are used up in the production of other goods.		● Personal Income (PI): Income received by individuals and households before payment of personal taxes.	
● Market Price (MP): Price paid by the buyer including taxes, subsidies, and other charges.		● Personal Disposable Income (PDI): Income left after payment of personal taxes and non-tax payments.	
● Factor Cost (FC): Payment made to factors of production (wages, rent, interest, profit).		● GDP ≠ Welfare: GDP does not measure quality of life, health, education, leisure, or environment.	
● Three Methods: Output Method, Income Method, and Expenditure Method.		● Non-Market Activities: Household work, voluntary work, unpaid services are not included in GDP.	
● Equivalence: In a closed economy, Output = Income = Expenditure.		● Environmental Cost: Depletion of natural resources and pollution are not deducted in GDP.	
● GDP at MP: GDP includes Net Indirect Taxes and excludes Subsidies.		● Income Distribution: GDP does not show how income is distributed among people.	
● GDP at FC: GDP excludes Net Indirect Taxes and includes Subsidies.		● Useful but Limited: GDP is a useful indicator of economic activity but not a complete measure of well-being.	

ONE LINE MEMORY TRICKS



NOTE: More production may increase GDP, but true welfare depends on what we produce, how it is distributed, and how it improves the quality of life.



MCQs

MULTIPLE CHOICE QUESTIONS

PAGE 1



QUICK TIP

Read the question carefully, eliminate wrong options and choose the best answer.

1 Which of the following is NOT included in the calculation of Gross Domestic Product (GDP)?

- A. Value of final goods and services produced in the economy
- B. Expenditure on intermediate goods
- C. Net exports
- D. Depreciation

✓ **Correct Answer:** B. Expenditure on intermediate goods



Explanation:

GDP includes only the value of final goods and services to avoid double counting. Expenditure on intermediate goods is part of the production process and is excluded from GDP.

2 GDP at factor cost is equal to GDP at market price minus:

- A. Subsidies
- B. Net indirect taxes
- C. Depreciation
- D. Net exports

✓ **Correct Answer:** B. Net indirect taxes



Explanation:

GDP at factor cost (GVA at basic prices) is obtained by deducting net indirect taxes (indirect taxes minus subsidies) from GDP at market price.

$$\text{GDP at FC} = \text{GDP at MP} - \text{Net Indirect Taxes}$$

3 Which method of calculating National Income adds up all incomes earned by factors of production?

- A. Output Method
- B. Income Method
- C. Expenditure Method
- D. Product Method

✓ **Correct Answer:** B. Income Method



Explanation:

The Income Method calculates National Income by summing all factor incomes earned in the production process such as wages, rent, interest, and profit.

4 Which of the following is an example of a transfer payment?

- A. Pension
- B. Profit
- C. Rent
- D. Wages

✓ **Correct Answer:** A. Pension



Explanation:

Transfer payments are payments made without any goods or services in return. Examples include pension, scholarships, unemployment benefits, etc.

5 If GDP deflator is 120 in a particular year and Nominal GDP is ₹12,00,000 crore, then Real GDP (in base year prices) is:

- A. ₹9,00,000 crore
- B. ₹10,00,000 crore
- C. ₹12,00,000 crore
- D. ₹14,40,000 crore

✓ **Correct Answer:** A. ₹9,00,000 crore



Explanation:

Real GDP is calculated using the formula:

$$\begin{aligned} \text{Real GDP} &= (\text{Nominal GDP} \times 100) / \text{GDP Deflator} \\ &= (12,00,000 \times 100) / 120 \\ &= ₹9,00,000 \text{ crore} \end{aligned}$$



EXAM TIP:

Focus on concepts, formulas, and examples. Practice MCQs regularly to improve speed and accuracy.





MCQs

MULTIPLE CHOICE QUESTIONS

PAGE 2



QUICK TIP

Understand the concept, analyze the options and eliminate carefully to find the best answer.

6 Which of the following is included in the calculation of National Income?

- A. Sale of old second-hand car
- B. Home-cooked meals for own consumption
- C. Payment for domestic services
- D. Production of illegal goods

✓ **Correct Answer:** C. Payment for domestic services

💡 **Explanation:**

Payment for domestic services is a market transaction and is included in National Income. Sale of second-hand goods, home-cooked meals for own consumption, and illegal goods are not included.



7 Which aggregate is equal to Personal Income minus Personal Taxes?

- A. National Income
- B. Personal Disposable Income
- C. Gross Domestic Product
- D. Net National Product

✓ **Correct Answer:** B. Personal Disposable Income

💡 **Explanation:**

Personal Disposable Income (PDI) is the income available with individuals after paying personal taxes.



$$\text{PDI} = \text{Personal Income} - \text{Personal Taxes}$$

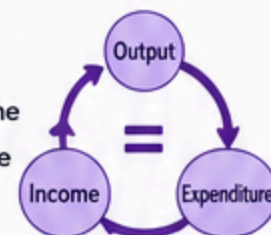
8 In a two-sector economy, if there is no change in inventories, then:

- A. Output = Income = Expenditure
- B. Output > Income = Expenditure
- C. Output < Income = Expenditure
- D. Output = Income > Expenditure

✓ **Correct Answer:** A. Output = Income = Expenditure

💡 **Explanation:**

In a closed economy with no change in inventories, the three methods of calculating National Income give the same result.



9 Which of the following is a component of Gross National Product at market price (GNP at MP) but not of GDP?

- A. Net factor income from abroad
- B. Net indirect taxes
- C. Depreciation
- D. Consumption of fixed capital

✓ **Correct Answer:** A. Net factor income from abroad

💡 **Explanation:**

GNP at MP includes net factor income from abroad (income earned by residents from abroad minus income earned by non-residents in the domestic territory), which is not part of GDP.



10 Which of the following best describes the GDP deflator?

- A. It measures the unemployment rate
- B. It shows the general price level of goods and services in the economy
- C. It measures the level of real GDP
- D. It indicates the distribution of income

✓ **Correct Answer:** B. It shows the general price level of goods and services in the economy

💡 **Explanation:**

GDP deflator is an index of price level that shows how the general price level of goods and services changes over time.

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



EXAM TIP:

Revise key definitions, formulas and relationships regularly. Practice consistently to improve accuracy and speed in examinations.





MCQs

MULTIPLE CHOICE QUESTIONS

PAGE 3



QUICK TIP
Read carefully, think logically, apply concepts and eliminate wrong options.

11 Which of the following is NOT a component of Private Final Consumption Expenditure?

- A. Expenditure on food by households
- B. Expenditure on clothing by households
- C. Expenditure on goods produced for resale by traders
- D. Expenditure on housing services by owners (estimated rent)

✓ **Correct Answer:** C. Expenditure on goods produced for resale by traders

💡 **Explanation:**

Private Final Consumption Expenditure (PFCE) includes expenditure by households on final goods and services for their own use. Goods purchased for resale are not consumed by households, hence excluded.



12 Which of the following is an example of non-market activity?

- A. Paid domestic help in a household
- B. Teaching in a private school
- C. Housewife cooking food for the family
- D. Purchase of vegetables from the market

✓ **Correct Answer:** C. Housewife cooking food for the family

💡 **Explanation:**

Non-market activities are those which do not involve any monetary transaction. Cooking by a housewife for the family is a non-market activity.



13 GDP is considered a flow variable because:

- A. It is measured at a particular point of time
- B. It is measured over a period of time
- C. It is measured in physical terms
- D. It is measured in monetary terms

✓ **Correct Answer:** B. It is measured over a period of time

💡 **Explanation:**

Flow variables are measured over a period of time, such as a year or a quarter. GDP measures the value of goods and services produced during a given time period.



14 Which of the following is included in the calculation of Net National Product (NNP) at factor cost?

- A. Depreciation
- B. Net indirect taxes
- C. Consumption of fixed capital
- D. Net factor income from abroad

✓ **Correct Answer:** D. Net factor income from abroad

💡 **Explanation:**

NNP at factor cost = GDP at factor cost + Net factor income from abroad. It already excludes depreciation (consumption of fixed capital) and net indirect taxes.



NNP at FC = GDP at FC + Net Factor Income from Abroad

15 Which statement is correct regarding Nominal GDP and Real GDP?

- A. Nominal GDP is measured at constant prices and Real GDP at current prices.
- B. Nominal GDP does not change with price level but Real GDP does.
- C. Nominal GDP is measured at current prices and Real GDP at constant (base year) prices.
- D. Both are measured at current prices.

✓ **Correct Answer:** C. Nominal GDP is measured at current prices and Real GDP at constant (base year) prices.

💡 **Explanation:**

Nominal GDP reflects the value of goods and services at current year prices, while Real GDP eliminates the effect of price changes by using base year prices.

Nominal GDP

- Measured at current prices
- Affected by inflation

Real GDP

- Measured at constant prices
- Not affected by inflation



EXAM TIP: Practice regularly, revise formulas and definitions, and solve as many MCQs as possible. Concept clarity + Practice = Success!





MCQs

MULTIPLE CHOICE QUESTIONS

PAGE 4



QUICK TIP

Understand the concepts, recall key formulas, and practice regularly to achieve high scores!

16 Which of the following is included in Gross Domestic Product (GDP) but not in Green GDP?

- A. Value of household production
- B. Cost of pollution and environmental degradation
- C. Expenditure on education
- D. Market value of final goods and services

✓ **Correct Answer:** B. Cost of pollution and environmental degradation



Explanation:

GDP ignores the depletion of natural resources and environmental damage. Green GDP adjusts GDP by deducting the cost of environmental degradation and depletion of natural resources.



17 Which income is earned by a resident of a country from working in another country?

- A. Net factor income to abroad
- B. Net factor income from abroad
- C. Net exports
- D. Net transfer payments

✓ **Correct Answer:** A. Net factor income to abroad



Explanation:

When residents of a country earn income in another country, it is called factor income to abroad, which is subtracted in the calculation of GNP.



18 Which of the following is a capital receipt?

- A. Wages
- B. Profit
- C. Sale of old machinery
- D. Rent

✓ **Correct Answer:** C. Sale of old machinery



Explanation:

Capital receipts arise from sale of assets or loans. Sale of old machinery is a capital receipt, whereas wages, profit and rent are revenue receipts.



19 GDP Deflator is also known as:

- A. Price Index
- B. Quantity Index
- C. Value Index
- D. None of the above

✓ **Correct Answer:** A. Price Index



Explanation:

GDP Deflator measures the general price level of final goods and services in the economy and is therefore called a price index.



20 If Nominal GDP increases while Real GDP remains constant, then:

- A. Prices have fallen
- B. Prices have risen
- C. Production has increased
- D. Both prices and production have increased

✓ **Correct Answer:** B. Prices have risen



Explanation:

Nominal GDP = Real GDP × Price Level
If Real GDP is constant and Nominal GDP increases, it means the Price Level must have risen.

$$\text{Price Level} = \frac{\text{Nominal GDP}}{\text{Real GDP}}$$



EXAM TIP:

Revise key formulas, definitions, and relationships. Analyze each option carefully and eliminate incorrect ones.





MCQs

MULTIPLE CHOICE QUESTIONS

PAGE 5



QUICK TIP

Practice consistently, understand concepts thoroughly, and manage time effectively in exams!

21 Which aggregate is equal to GDP at market price minus depreciation?

- A. Net Domestic Product at market price
- B. Net National Product at market price
- C. Gross National Product at market price
- D. Net National Product at factor cost

✓ **Correct Answer:** A. Net Domestic Product at market price



Explanation:

NDP at market price is calculated by deducting depreciation (consumption of fixed capital) from GDP at market price.

$$\text{NDP at MP} = \text{GDP at MP} - \text{Depreciation}$$



22 Which of the following items is included in the calculation of National Income?

- A. Value of goods and services produced by households for own use
- B. Value of second-hand goods
- C. Stocks and bonds
- D. Financial transactions (buying and selling of shares)

✓ **Correct Answer:** A. Value of goods and services produced by households for own use



Explanation:

Goods and services produced by households for their own final use are included in National Income. Second-hand goods, stocks, bonds, and financial transactions are excluded.



23 Which method of calculating National Income is also known as Value Added Method?

- A. Output Method
- B. Income Method
- C. Expenditure Method
- D. Product Method

✓ **Correct Answer:** D. Product Method



Explanation:

The Product Method (also called Value Added Method) calculates National Income by adding the value added at each stage of production.



24 Personal Disposable Income is equal to:

- A. Personal Income – Personal Taxes + Savings
- B. Personal Income – Personal Taxes – Savings
- C. Personal Income + Personal Taxes
- D. Personal Income – Personal Taxes

✓ **Correct Answer:** D. Personal Income – Personal Taxes



Explanation:

Personal Disposable Income (PDI) is the income available with individuals after payment of personal taxes.



$$\text{PDI} = \text{PI} - \text{Personal Taxes}$$

25 Which statement is correct regarding Real GDP?

- A. It is measured at current prices
- B. It is measured at constant (base year) prices
- C. It includes the effect of price changes
- D. It is always less than Nominal GDP

✓ **Correct Answer:** B. It is measured at constant (base year) prices



Explanation:

Real GDP is measured at constant prices of a base year, eliminating the effect of inflation and showing only changes in physical output.



EXAM TIP:

Read questions carefully, eliminate wrong options, and choose the most accurate answer. Time management is the key to success!





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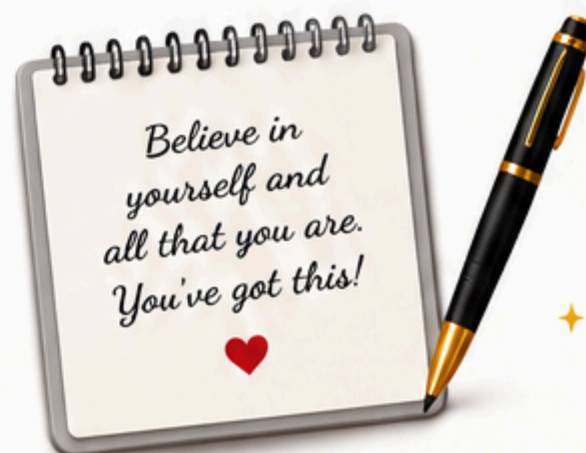
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