Q1. What is national income?

National income is the sum total of market value of final goods and services produced by the normal residents of a country during the period of one year. National income may be calculating at both the current prices and constant prices. National income at current price is not the true indicator of the economic status of the country. Because it is the monetary income not the real income. National income at constant price is known as real national income. It is the index of the economic growth of the country .it indicates the standard of living of its people. Increase in the national income at current price may be due to increase in the price of goods and services. There may not be real increases in the quantity of goods and services produced. Increase in the national income at constant price will be due to increase in the real output of goods and services. Real national income is the value of goods and services at the prices of the base year. In other words goods and services are valued at constant price.

Q2. Explain the concepts of National Income?

1. Gross Domestic Product (GDP) :- Gross Domestic product (GDP) is the total blue of all final goods and services produced within the domestic territory of a country during an accounting year. It should be noted that goods and services must be produced within the country. GDP is always the money value of goods and services produced within a year. Goods and services produced include all types of agricultural, industrial and commercial goods it includes the value of all economics activities produce, both goods and services. GDP is calculated as under.

$$GDP = P(Q) + P(S)$$

Where **P** = Market price
Q = Quantity of goods produced during the year.
S = Services.

GDP can be estimated at both the current and constant price.

a) **GDP at current Market price :-** Current price means the prevailing price of goods and services in the market. In order to calculate GDP at current price goods and services produced the year are valued in terms of prevailing price of the year.

b) **GDP at Constant Price (Real GDP) :-** constant price means base year's price. Base year is an average standard previous year in which major economic change have not taken place. Goods and services produced during the year are either valued at constant price of the base year or the value of goods and services at current prices is converted into the value at constant price. Modern economics are inflationary economics, where prices of goods and services are increasing at faster rates. It is, there fore, adjustable that the value of goods and services at current prices should be converted at constant price, so that real GDP could be understood calculation at constant price should be referred as real GDP.

2. **Gross National Product GNP :-** GNP is the total value of all final goods and services produced by the national of the country within the country or outside the country. It is very important to understand the term National. It means the citizens of India living within the country or outside the country. Normal resident means persons normally residing in the country. There may be both nationals and non-nationals. Nationals will have Indian citizenship and non-nationals will be having foreign citizenship but residing within the country. It s also possible that Indian nationals may be living in foreign countries and producing goods and services there. The values of

these goods and services produced by Indian nationals abroad will be added to GNP. In the same way, the value of goods and services produced by non-nationals in India will not be included in GNP.

3. **Net Domestic Product NDP :-** GDP is the sum total of goods and services produced during the year in the economy. It does not reveal the true national income, because it includes the full value of all the goods even capital goods such as machines, equipments, tools and furniture etc. the capital goods are subject to wear and tear. There is loss in their value due to their constant use. This loss in the use is termed as 'depreciation'. In order to calculate net domestic product depreciation should be deducted from GDP. NDP or domestic income as such may be defined as the value of final goods and services produced within the domestic territory of a country in an accounting year, less consumption of fixed capital. We can use the following formula for calculating NDP.

NDP = GDP – Depreciation

4. **Net National Product NNP :-** NNP is different from NDP as regards by net national income from abroad. NNP as such is NDP plus net factor income from abroad. NNP refers to the net money value of final goods and services produced at current prices in one year in a country. If we subtract the depreciation charges from the gross national product, we will get the NNP at market price. This can be expressed as.

NNP at market price = GNP at market price-capital consumption allowances.

5. **Private Income :-** Private income is the income of the private sector obtained from any source , productive or otherwise, and the retained income of the corporations. According to central statistical organization, private income is the total of factor income from all sources and current transfer from the govt. and rest of the world accuring to private sector.

6. **Personal Income :-** personal income is the total of all current income received by households from all sources. It is infact, the sum total of all types of factor income actually received by the households and current transfers. Personal income includes actually received by the households. Some part of the profits is retained by the firms as undistributed profits, also called corporate savings. Also, some part of the profits is taxed by the govt. called corporate profit tax. The principal difference between private income and personal income, therefore, is that while private income includes corporate saving and corporate tax, which personal income does not.

7. **Personal Disposal Income :-** it refers to that part of personal income , which is actually available to individuals for consumption. All personal income may be available for being spent in satisfying need. Individuals have to pay certain direct taxes such as income tax, wealth tax, estate duty etc., taxes paid from the personal income will leave lesser income to he disposed of . hence the personal disposable income is personal income less personal direct taxes fee and fines etc., it may be expressed as.

Personal Disposal Income = Personal Income – Personal direct taxes – fee, fines etc.

8. **Per capita Income :-** Per capita income of a country may be defined as an average earning of an Individual in a particular year. It refers to the income received by an individual in a certain year in a country. Generally, the concept of per-capita income refers to the measurement of income at current prices and at he prices of base year. The formula for the calculation of per-capita income is as under :-

$$\text{Per-capita Income} = \frac{\text{National Income of a country}}{\text{Population of a country.}}$$

9. **Real Income :-** Real income is the national income expressed in terms of level of prices of a particular year taken as base. Real income of a country can be calculated by taking a particular year as base year when the general price level is neither too high nor too low and the price level for that year is assumed to be 100.

$$\textbf{Real NNP} = \textbf{NNP for current year} \times \frac{\textbf{Base year index}}{\textbf{Current year index}}$$

Q3. Give the methods of measuring of national income?

National income can be measured by three methods.

1. Value added or Product method.
2. Income methods.
3. Expenditure or consumption method.

1. **Product Method :-** it is an attempt to measure national income on the basis of contribution made by all the producing enterprises in the domestic territory of the country within the accounting year. According to this method, productive enterprises produces certain goods and services in the economy. The value of these goods and services is known as national income. Goods include both consumer and capital goods. Consumer goods include bread, butter, apples, etc., capital goods include plant machines, equipments, tools etc., services include the service rendered by employees in govt. departments and private enterprises. It also includes the services of doctors, teachers, artists etc. the process of estimating national income according to this method may be summarized as under :-

- Determining the cost of material used and services rendered.
- Determining depreciation on capital goods and equipments.
- Calculating net value of domestic product by deducting depreciation from GDP.

2. **Income Method :-** Income method of measuring national income estimates income on the basis of payments made to primary factors production in the form of wages, rent, interest and profit during the accounting year. National Income, according to this method is the sum total of income earned by all the factors of production, in economics income is taken as income – earned, when a person gets remuneration against his productive services. Wages of the labourers, salary to the teacher rent to the owner of the land. Interests to the owner of capital etc. are the examples of income earned. Contrary to it , if some body gets payment without rendering any productive service that is called transfer payment e.g., old age pension, scholarship etc.

3. **Expenditure or consumption / investment method :-** Expenditure method is an attempt to measure national income on the basis of final expenditure on GDP at market price during the accounting year. Income generated in the economy is either spent in satisfying various wants or saved. Savings are further invested in the productive activities. in other words, we can say the final expenditure method as consumption and investment method. It can be written as. $Y = C + I + G + (X - M)$.

Y = National income, C = Consumption, I = Investment, G = govt. Expenditure (X - M) Net income earned from abroad.

Problems :-

1) Double Counting :- it means that a commodity is accounted more that one place e.g., for bread it is accounted at least for three times, wheat, atter and bread under these circumstances, it becomes difficult to make correct estimate of national income.

2) Barter Economy :- there is still barter economy in less developed countries, in such countries, goods are exchanged for goods. More over a major part of the agricultural produce is consumed at the farm level and not brought to the market.

3) Indifferent Attitude of the people :- the measurement of national income becomes difficult when the attitude of the people is indifferent. People do not maintain proper accounts of their income and expenditure. They conceal income from the fear of tax.

4) Change in Price :- while calculating national income, prices are not constant. They go on changing overtime. As a result, it becomes difficult to have a correct measure of national income.

5) Choice of Methods :- it means which method will be chosen to measure national income in a country.

Q4. What is Monetary Policy?

Monetary policy implies those measure designed to ensure an efficient operation of the economic system or set of specific objectives through its influence on the supply, cost and availability of money. According to prof. Crowther. "Monetary policy consists of the steps taken or efforts made to reduce to a minimum the disadvantage that flow from the existence and operation of the monetary system. It is a policy to regulate the flow of monetary resources in the economy to attain certain specific objectives. In a developing economy, the role of the monetary policy is both regulatory and promotional. In a developing economy, the govt. has to raise investment through credit expansion and deficit financing. The govt. has to more developmental expenditure. It causes inflations, which results in continuous rise in prices. In this way, it becomes the duty of govt. to regulate the monetary supply in such a way that the inflation may be kept within limit.

Q5. Explain Fiscal policy? Give its objectives?

Fiscal policy may be defined as govt. policy concerned with raising revenue and pattern of expenditure in order to achieve the objectives of the economic policy. In other words, Govt. expenditure and tax raising policy is called fiscal policy. The revenue can be raised through taxation and other measures. In a developing economy, the objective of the fiscal policy is to accelerate the rate of economic growth, social justice and price stability (Objectives of fiscal policy).

1) **Economic development :-** it is used as an instrument for economic development. Under developed economics suffer from low per capital income lesser development and low capital formation.

2) **Distributive Justice :-** social unrest and class struggle are the result of economic inequality. It is due to the inequality of income between rich and poor. Industrialists, traders, smugglers, grow richer and the general masses grow poorer. The revenue received from taxation is transferred to poor people in the form of free medical, health, education and other welfare features.

3) **Price Stability :-** Inflation grows in developing economy. The purchasing power of the people increases at faster rate then the increase in the supply of goods. The result is

the increase in price. Inflation badly affects the fixed income group and weaker sections of the economy. The state must intervene to regulate prices.

Q6. Write short note on inflation?

A situation of persistent rise in price level is called inflation. India has been passing through a situation of inflation since the end of first five year plan. Problem of inflation is a complex economic problem in our country. Nothing is more important except to maintain stable price level. In 2005, the value of Rupee has gone to 16 paise as against its value in 1981-82. During planning period, national income has increased to four times while prices have increased by eight times. From 1951 to 2005, annual rate of inflation is around 66%. No doubt, inflation is somewhat natural in under developed countries. But excessive rise in price have an adverse effect on economic development of the country. Thus, in the countries like India, achievements of the goal of price stability along with economic growth got the top priority.

<u>Causes of inflationary rise in prices</u> :-

A) Demand – pull Factors :-

1) **High Rate of Growth of Population :-** The fore most cause for demand pull is high rate of growth of population in India. It is putting a heavy pressure on aggregate demand and on the price level. Population is increasing by 15 to 16 million every year. This additional size of population is raising the aggregate demand for food stuff and other essential commodities. As a result there is an inflationary rise in prices.

2) **Mounting Govt. Expenditure :-** Govt. expenditure has been continuously increasing over the years. The total expenditure of central and state govt. including union Territories has risen from Rs 740 cr. in 1950-51 to Rs 37,000 cr. in 1980-81 and about Rs 7, 66,980 crs. in 2003-04. This is not case of development expenditure only, but non-development expenditure has been mounting at much more rapid rate. Such increase in govt. expenditure is greatly responsible for a high rate of demand pull inflation.

3) **Black Money :-** It is well known fact that there is a large accumulation of black money in the country. It is in the hands of income tax evaders, smugglers and corrupt politicians. Govt. of India has estimated at Rs 6, 00,000 crs during 1997-98.

B) Cost – Push Factors :-

1) **Fluctuations in the productions :-** Violent fluctuation in the production of food grains are greatly responsible for rise in prices. E.g., after a record production of food grains of 108 million tones in 1970 – 71 it fell to 97 million in the next two years a fall of 11 % in two years. Such fluctuation in the output of food grains in certain years are the major factors in the rise of prices of food grains and general prices in the country.

2) **Increased Taxation:-** With the imposition of foreign commodity taxes in every successive budget, there is an opportunity for trading class to raise the prices.

3) **Oil price Hike:-** Serious inflationary pressure were also created due to sharp hike in prices of crude oil since 1973. The introduction of gulf surcharge in 1990-91 has resulted in serious inflationary rise in the prices along with global inflation of oil crude.