**National Income: Note-4**

**B.A 2ND Sem (Honours)**

**Difficulties in Measurement of National Income of India:**

The difficulties faced in measuring national income of India can be divided into two categories:

1) conceptual difficulties, and

2) statistical difficulties.

**Conceptual difficulties**. All the countries, whether developed or developing, face

difficulties relating to the concepts used in national income accounting. Even

economists differ on what constitutes national income, i.e., what to include in

national income. Examples of such difficulties are:

* absence of an agreed definition of national income
* difference between final goods and intermediate goods
* transfer payments
* services rendered without remuneration etc.
* consumers’ durable goods etc.

**Statistical difficulties**

1. **Inadequate and unreliable data**

Data available are neither sufficient nor correct and sufficiently detailed. For example, in India, it is possible to get information, though inadequate, from producing units in organised sector. But it is difficult to get data from agricultural and related activities like household, crafts and indigenous credit(functioning of village money lenders). Moreover production is not only unorganised but scattered also.

1. **Non-monetised sector**

 A significant part of the product, especially product of agriculture and cottage industries in rural India is bartered. Valuation of such goods, which have been exchanged through barter system, becomes very difficult since they do not reach the market.

1. **Production of goods for self-consumption**

 The small farmers who constitute a sizeable number in India produce goods mainly for their own use. The value of such goods cannot be computed because they do not come to market for sale. Hence a good deal of guesswork in such cases

become inevitable.

1. **Illiteracy and ignorance**

 Majority of the people in India are illiterate, uneducated and ignorant. They do not maintain account of their income and expenditure. These people do not even know much on giving data, about their income and expenditure. They are ignorant of cost accounting, which is being progressively used by most of the developed countries.

1. **Lack of occupational classification**

 In India most of the people earn their living from more than one occupation. For example, Indian farmers work primarily in agriculture. But when free, they also work in cottage and small industries. Should they be treated agricultural workers or industrial workers? When people have different sources of income, it becomes difficult to know the main source and consequently a large part of income gets excluded from national income.

**A Few Macroeconomic Aggregates**

**Valuation of a new good at constant prices**

When a new commodity is produced for the first time, it is easy to know its current price but difficult to get its constant price. For example, in India it is difficult to work out the value of a colour T.V. at constant prices of 1970-71 because it was not being produced in that year.

**Consumption of fixed capital**

By deducting depreciation cost from gross national product (GNP), we get the value of net national product. But it is quite difficult to measure the correct value of consumption of fixed capital (e.g., machines, buildings, etc.) during the year. So some sort of arbitrariness gets involved while estimating depreciated amounts.

**Compensation of Employees**

It is the factor income generated in an economy in the process of production by rendering labour services. It is also referred to as income from work that includes wages and salaries, employers’ contribution to social security, commissions and real wages.

**Change in Stocks**

It is the difference between total stocks or inventories (including unsold finished products, semifinished products and raw materials) at the end of

the year and total stocks at the beginning of the year.

**C.S.O**

Stands for Central Statistical Organization, which is responsible for the publication of ‘National Accounts Statistics’ every year providing estimates

of national income and various other macroeconomic aggregates.

**Double Counting (Very Important)**

When the value of output of a product is included along with the other products in which it has entered as raw material, double counting occurs. It should be avoided in estimation of GDP of an economy.

**Domestic Territory**

It includes geographical or political boundary of an economy besides ships in the international waters and embassies or consulates in foreign countries.

**Direct Taxes**

The taxes which are imposed on persons or institutions and they are to be paid by them alone. In other words, these are the taxes the incidence

of which cannot be transferred to others.

**Durable Goods**

These are the goods, which can be used again and again like tables, machines etc.

**Economic Growth**

It is the growth of real per capita income in an economy.

**Economic Development**

It is economic growth of an economy coupled with all those factors, which sustain economic growth over a sufficiently long period of time.

**Economic Welfare**

It is that part of total welfare of an economy, which is associated with production and consumption of goods and services.

**Expenditure Method**

It is sum of all expenditures by various economic agents on the goods and services produced by an economy.

**Factor Incomes**

These are incomes distributed to suppliers of factor services (labour, land, capital and enterprise) for work done over a year in an economy.

**Income Method**

It is sum of factor incomes currently generated, which is used along with net factor income from abroad to arrive at national income of an economy.

**Intermediate Inputs**

Inputs employed by a firm in the process of production, which is bought from other firms or producing units.

**Imputed Rent (very important)**

It is the value of rent worked out for owner-occupied dwellings.

**Net Factor Income from abroad (very important)**

The factor income (compensation of employees and entrepreneurial income) received fromabroad by normal residents of an economy minussuch factor incomes paid to normal residents offoreign countries.

**Net Exports**

It is value of exports minus value of imports of an economy.

**Own-Account Production**

It is the production of goods or services by selfemployed households or institutions.

**Primary Sector**

This is a sector, which consists of agriculture, forestry and logging, fishing, mining and quarrying.

**Secondary Sector**

This is a sector, which consists of manufacturing (registered and unregistered) and electricity, gas and water supply.

**Tertiary Sector**

This is a sector which consists of trade, hotels and restaurants, transport, storage and communication, financing, insurance, real estate and business services and community, social and personal services.

**Transfer Incomes (very important)**

These are the incomes, which do not arise on account of factor services; they are incomes transferred from one sector to another or transferred from one unit to another within a sector. They are not included in national income of an economy.