



ambitious baba.com

JAIIB (New Syllabus)

**INDIAN ECONOMY & INDIAN
FINANCIAL SYSTEM (IE&IFS)**

Paper-1

MODULE-B, UNIT-7



**SYSTEM OF NATIONAL ACCOUNTS
AND GDP CONCEPTS**



JAIIB IE and IFS Module B Unit 7: System Of National Accounts And GDP Concepts

System of National Accounts (SNA)

The **System of National Accounts (SNA)** is a coherent, consistent, and integrated collection of **macroeconomic accounts, balance sheets, and tables that are based on a set of internationally agreed concepts, definitions, classifications,** and accounting principles. It provides a complete accounting framework, within which, economic data may be collected and presented in a way suitable for economic research, decision-making, and policymaking.

The System of National Accounts is an international standard system of national accounts, the **first international standard being published in 1953**. Handbooks have been released for the **1968 revision, the 1993 revision, and the 2008 revision**.

SNA Framework 2008

The three major components influencing the present revision exercise include;

- Revision of base year to a more recent year (for meaningful analysis of structural changes in the economy in real terms)
- Complete review of the **existing data base and methodology** employed, in the estimation of various **macro-economic aggregates**, including choice of the alternative databases on individual subjects
- To the extent feasible, implementing the international guidelines on the compilation of national accounts, the **System of National Accounts (SNA), 2008** prepared under the auspices of the Inter Secretariat Working Group on National Accounts comprising of the European Communities (EUROSTAT), International Monetary Fund (IMF), Organization for Economic Cooperation and Development (OECD), United Nations and the World Bank.

India & System of National Accounts (SNA), 2008

The CSO issued fresh and amended National Accounts data in January 2015, resulting in two changes:

- The Base Year has been changed from 2004–05 to 2011–12. This was done, in compliance with the National Statistical Commission's (NSC) proposal to change the base year of all economic indicators, every five years.
- The technique for calculating the National Accounts has also been revised this time, to meet the standards of the System of National Accounts (SNA)-2008, an internationally recognised standard.

The major changes incorporated in the revision of SNA 2008 are as follows:

- The headline growth rate will henceforth be measured by GDP at constant market prices, which will be referred to as 'GDP' from here on (as is the practice internationally). Previously, growth was assessed in terms of GDP growth rate, at factor cost and constant prices.
- Estimates of Gross Value Added (GVA) each sector will now be provided, at basic prices rather than factor cost.
- Comprehensive coverage of the corporate sector in both manufacturing and services by inclusion of annual accounts submitted with the Ministry of Corporate Affairs (MCA), as part of their MCA21 e-governance project. The use of the MCA21 database by manufacturing enterprises has aided in accounting for non-manufacturing activities done by these companies.
- Inclusion of information from the accounts of stockbrokers, stock exchanges, asset management companies, mutual funds, and pension funds, as well as regulatory bodies such as the Securities and Exchange Board of India (SEBI), Pension Fund Regulatory and Development Authority (PFRDA), and Insurance Regulatory and Development Authority (IRDA), provides comprehensive coverage of the financial sector.
- Coverage of operations of local bodies and autonomous institutions has been improved, with around 60% of grants/transfers paid to these organisations covered.

Choice of 2011-12 as the Base Year

The **Ministry of Statistics and Programme Implementation (MOSPI)** is considering changing of **base year** for GDP calculation from **2011-12 to 2017-18**.

Base Year

- The base year of the national accounts is chosen to enable inter-year comparisons. It gives an idea about changes in purchasing power and allows calculation of inflation-adjusted growth estimates.
- The last series has changed the **base to 2011-12 from 2004-05**.

Need for Change

- **Accuracy:** Change of base year to calculate GDP is done in line with the global exercise to **capture economic information accurately**.
- **Globally Aligned:** GDP based on 2011-12 did not reflect the current economic situation correctly. The new series will be in compliance with the **United Nations guidelines in System of National Accounts-2008**.
 - Ideally, the base year should be changed after every five years to capture the changing economy.

GDP Concepts

- **Gross Domestic Product (GDP):** It is the total market value of all the final goods and services produced within the territorial boundary of a country, using domestic resources, during a given period of time, usually 1 year.
 - **Gross national Income at Market Price = GDP at Market Price + Taxes less subsidies on production and imports (net receivable from abroad + Compensation of Employees (Net Receivables from abroad) + Property income (Net receivables from abroad)**
 - **Gross National Product (GNP) = GDP + Total Capital gains from overseas investment (-) income earned by foreign nationals domestically**
- $GNP = GDP + NR$ (Net Income from assets abroad (Net Income Receipts))

GDP Computation

According to the National Income Accounting, there are **three ways to compute GDP:**

- Expenditure wise
- Income wise
- Product wise

Expenditure Method

$GDP = \text{Consumption} + \text{Gross Investment} + \text{Government Spending} + (\text{Exports} - \text{Imports})$
 $GDP = C + I + G + (X - M)$

- **Consumption:** This included personal expenditures pertaining to food, households, medical expenses, rent, etc
- **Gross Investment :** Business Investment as capital which includes construction of a new mine, purchase of machinery and equipments for a factory, purchase of software, expenditure on new houses, buying goods and services but investments on financial products is not included as it falls under savings.
- **Government spending:** It is the sum of government expenditures on final goods and services.

i) Exports: This includes all goods and services produced for overseas consumptions.

ii) Imports: This includes any goods or services imported for consumption and it should be deducted to prevent from calculating foreign supply as domestic supply.

Income Approach

GDP from the income is the sum of the following major components:

- i) Compensation of employees
- ii) Property income
- iii) Production taxes and depreciation on capital

- **Compensation of Employees:** It represents wages, salaries and other employee supplements.
- **Property Income:** It constitutes corporate profits, proprietor's income, interests and rents.
- **GDP at market price** measures the value of output at market prices after adjusting for the effect of indirect taxes and subsidies on the prices. Market price is the economic price for **which a good or service is offered in the market place.**
- **GDP at factor cost** measures the value of **output in terms of the price of factors used in its production.**
- $\text{GDP at factor cost} = \text{GDP at Market Price} - (\text{Indirect taxes} - \text{Subsidies})$

Product Approach

In India we have getting GDP product wise belongs to 8 sectors.

- **Real GDP or GDP at constant price:** It means the value of today's output at yesterday price. Real GDP is calculated by tracking the volume or quantity of production after removing the influence of changing prices or inflation.
- **Normal GDP or GDP at Current prices:** It represents the total money value of final goods and services produced in a given year, where the values are expressed in terms of the market prices of each year.
- **Factors of production are :** Land, Labour, Capital and Entrepreneur

Basic Concept of National Income

Net Domestic Product (NDP):

- $\text{NDP} = \text{GDP} - \text{Depreciation}$
- $\text{GDP} = \text{NDP} + \text{Depreciation}$

Gross National Product (GNP):

- $\text{GNP} = \text{GDP} + \text{NFIA}$ (Net factor income from abroad)
- $\text{GDP} = \text{GNP} - \text{NFIA}$

Net National Product (NNP):

- $\text{NNP} = \text{GNP} - \text{Depreciation}$

Net Domestic Product (NDP):

- $\text{NDP} = \text{NNP} - \text{NFIA}$
- $\text{NNP} = \text{NDP} + \text{NFIA}$

Economic performance Indicators

Indicators	Interpretation
GDP growth rate	The performance of the economy



GDP per capita	The level of economic development in comparison to other countries
Compensation of employees per work hour	Labour cost
Compensation of employees/gross value added	Income shares of employees in GDP
Operating surplus/ gross value added	Income shares of capital in GDP
Gross fixed capital formation/GDP	Share of investment in capital goods in GDP
Saving/GDP	Saving rate of the nation
Saving/gross fixed capital formation	Domestic funding of investment
Saving of an institutional sector/ total saving	Contribution of each sector to total saving
Saving of households/ disposable income of households	Saving rate of households

Important Variants Of National Product Aggregates

Gross Domestic Product refers to the value of the final goods and services produced, within the geographical borders of an economy. It does not differentiate between the owners of the factors of production. On the other hand, Gross National Product measures the value of the final goods and services produced by the nationals of an economy, regardless of where the production takes place. The only restriction is that it should be produced by the domestic factors of production.

The possible variants of national product aggregates are as given below:

- Gross Domestic Product (GDP) at MP – net indirect taxes = GDP at FC
- Gross National Product (GNP) at MP – net indirect taxes = GNP at FC
- Net Domestic Product (NDP) at MP – net indirect taxes = NDP at FC
- Net National Product (NNP) at MP – net indirect taxes = NNP at FC

NDP at Factor Cost and NDP at Market Price

Net Domestic Product at Factor cost (NDP_{fc}): It refers to the total value of earnings received by all the factors of production in the form of wages, profits, rent, interest, etc. within the domestic territory of a country during a year. NDP at Factor cost includes cost of Compensation of Employees + Operating Surplus + Mixed income.

Net Domestic Product at Market Price (NDP_{mp}): It refers to the market value of all the final goods and services produced within the domestic territory of a country during a year. For a stable economy the NDP at Factor cost and NDP at Market price must be equal.

- **NDP_{fc}** = NDP_{mp} – Indirect taxes + Subsidies
- **NDP_{mp}** = NDP_{fc} + Indirect taxes – Subsidies

Personal Income: It is the income actually received by the individuals or households in a country during one accounting year, but undistributed profits of enterprises and taxes are deducted from private income as they are not distributed.

Personal income = Private Income – Undistributed profits – Corporate Profits – Retained earnings of Foreign companies – Taxes

Private Income: Private Income = National Income – Income from Property, Entrepreneurship, commercial and administrative enterprises – savings of non-departmental enterprise of the Government + Interest on National Debt + Net current transfers from Government + Current Transfers from Abroad

Personal Disposable Income (PDI): Portion of Income from Personal Income that is available for Individuals for actual consumption.

PDI = Personal Income – Personal Taxes – Direct Taxes – Fines, fees, receipts of Govt.

Other: Real Income – National income expressed in terms of general level of prices.

Real NNP = NNP for the Current Year × (Base Year Index/Current Year Index)

Operating Surplus = Rent Interest + Profit + Dividend and Other similar income.

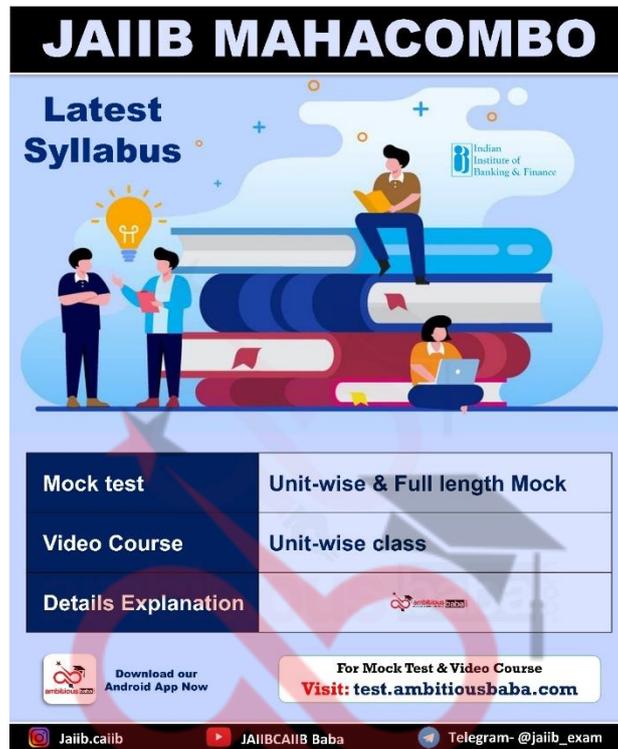
Mixed Income = Labour Income + Property Income

Net Indirect Taxes = Indirect taxes + Subsidies

Some useful National Income Aggregates

- National Income – NNP_{fc} or NIF_c = NImp – Indirect taxes + subsidies
 - NIF_c = NImp – Net Indirect Taxes
 - GDP_{mp} = GNP_{mp} – NFIA
 - GDP_{fc} = GDP_{mp} – Net Indirect Taxes
 - NDP_{mp} = GDP_{mp} – Depreciation
 - NIF_c or NNP_{mp} = GNP_{mp} – Depreciation
 - Gross National Disposable Income (GNDI) = GNP_{mp} + Net Current transfers from rest of the world
 - Net National Disposable Income (NNDI) = NINP_{mp} + Net Current Transfers from rest of the world
 - To get from GDP to NDP deduct (–) Depreciation)
 - To get from NDP_{mp} to NDP_{fc} deduct (–) net indirect taxes
 - To get from GDP_{mp} to GNP_{mp} deduct (–) Net Factor Income from Abroad
- On 23rd May 2019, the Indian government passed the order to merge the NSSO with the Central Statistics Office (CSO) to form the National Statistical Office (NSO) and is headed by the Ministry of Statistics and Programme Implementation (MoSPI).

- [Join Telegram Group](#)
- For Mock test and Video Course Visit: test.ambitiousbaba.com
- Join Free Classes: [JAIIBCAIIB BABA](#)
- [Download APP For Study Material: Click Here](#)



JAIIB MAHACOMBO

Latest Syllabus

Indian Institute of Banking & Finance

Mock test	Unit-wise & Full length Mock
Video Course	Unit-wise class
Details Explanation	

Download our Android App Now

For Mock Test & Video Course
Visit: test.ambitiousbaba.com

 [Jaiib.caiib](#)  [JAIIBCAIIB Baba](#)  [Telegram- @jaiib_exam](#)