

METHODS OF CALCULATING NATIONAL INCOME

❖ **VALUE ADDED METHOD:-**

❖ **INCLUDED:-**

1. **COMMISSION EARNED ON SALE & PURCHASE OF SECOND HAND GOODS:-**
Commission is reward for the service rendered.

2. **OWN ACCOUNT PRODUCTION OF GOODS OF THE PRODUCING UNITS:-** These goods are produced for the market. These are not sold due to their need producers themselves.

Example:- Cars used for transporting their employees by the car producers.

3. **PRODUCTION FOR SELF CONSUMPTION:-** These goods are produced for the market.

Example:- Wheat produced by farmer & consumed by themselves only.

4. **ESTIMATED RENT OF THE OWNER OCCUPIED HOUSE:-** All the houses have rental value, even if these are self occupied or rent-out!

❖ **NOT INCLUDED:-**

1. **VALUE OF SALE & PURCHASE OF SECOND HAND GOOD:-** it is already accounted for during the year they were produced.

2. **VALUE OF INTERMEDIATE GOODS:-** Value of these goods is reflected in the value of final goods.

3. **SERVICE FOR SELF CONSUMPTION:-** It is difficult to estimate their market price. **Example:-** Service of housewives

❖ **INCOME METHOD:-**

a. **BROKERAGE ON SALE & PURCHASE OF SHARES AND BONDS:-** This is a reward for factor services.

b. Imputed rent of owners occupied houses along with the rent as a component of factor Incomes.

c. Production for self consumption to the generation of income in the economy.

❖ **NOT INCL DED:-**

a) Transfer earnings like old age pensions, unemployment allowance, pocket expenses, scholarship etc. as with this, there is no value addition in the economy.

b) **INCOME FROM ILLEGAL ACTIVITIES:-** (Theft, gambling) no estimates are available of such incomes.

c) **INCOMES IN TERMS OF WINDFALL GAINS:-** There is no value addition income in the form of capital gains is not to be treated as factor income.

d) **INCOME TAX IS PAID OUT OF COMPENSATION OF EMPLOYEE:-** It is a different factor, must not be added.

e) Wages and salaries in cash & in kind as well as social security contribution by the employers on behalf of employees. Any of such component of compensation of employees should not added separately.

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❖ **EXPENINT RE METHOD:-**

❖ **INCLUDED**

A. Commission or brokerage on such final assets is included as it is a productive serviced (Purchase hand goods).

B. **EXPENDITURE ON OWN ACCOUNT PRODUCTION:-** (Self consumption, value of owner occupied houses. full services from general govt. & private non profit institutions serving households) Since these are productive service & can be added.

❖ **NOT INCLUDED:-**

a. **EXPENDITURE ON INTERMEDIATE GOODS:-** This already included in the value of final expenditure. If it is included again, it will lead to double counting.

b. **TRANSFER PAYMENTS:-** As these are connected with any productive activity & there is no value addition.

c. **PURCHASED SECOND HAND GOODS:-** As these are included when they are originally purchased. These do not affect flow of G & S.

d. **PURCHASE OF FINANCIAL ASSET:-** (Shares, debentures, bonds) These transactions do not contribute to flow of G & S.