<u>Value Added Method</u>:- According to this method, National Income is calculated by adding net value by all producing unit during the year within the domestic boundary.

GVP_{mp} = GDP_{mp} = Value of Output – Intermediate consumption

↓

Sales+ Change in stock

↓

Closing stock – Opening stock

or

GDP_{MP}= Gross value added by primary sector, tertiary sector, secondary sector

For calculating domestic & national income,

Domestic income (NDP_{FC}) =GDP_{MP} –Depreciation – NIT

National Income(NNP_{FC}) = NDP_{FC}+NFIA

Following items should not be included

(i) Sale and purchase of second hand goods.

(ii) Value of intermediate goods & services.

(iii) Goods & services produced for self-consumption.

Precautions:-

(i) Commission on sale and purchase of second goods is included.

(ii) Imputed value of production for self-consumption is included.

(iii) Imputed rent on the owner occupied house is also included.

<u>Problem of Double Counting</u>:- Double counting means when value of certain goods is counted more than once. E.g. suppose there are four producers.

Farmer, Miller, Baker, Shopkeeper

Producer	Value of Output in₹	Input Value in₹	Value added ₹
Farmer	2000	0	2000
Miller	3000	2000	1000
Baker	4000	3000	1000
Shopkeeper	5000	4000	1000
Total :	<u>14000</u>	<u>9000</u>	<u>5000</u>

If we take ₹14000 as final output, this will arise the problem of Double Counting.

To avoid the problem of double counting, we have following measures:-

(i) <u>Value Added Method</u>:- By this method, we take value added only at each stage i.e. 5000

Value Added= Value of output – intermediate consumption(inputs value)

= 14000-9000

=5000

(ii) <u>Final Output method</u> :- According to this method, we take value of final goods only. Value of Intermediate goods are not taken into account. In the above case, ₹5000 only added to national income.

Income Method:- According to this method, national income is measured in terms factor payments

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(Land, Labour, Capital, Owner)

Components of Income Method-

(i) **Compensation of Employees:** it includes

(a) Wages and salaries in cash and kind

(b) Employers' contribution to Social Security

(c) Pension on Retirement (It does not refer to old age pensions)

Note:- Ignore employee contribution to social security

(ii) **Operating Surplus:** It is the income from property and entrepreneurship. It includes

(a) Rent, Interest, Royalty

↓

(Ignore National Debt Interest)

(b) Profit: Profit is further split into

→ Dividends

→ Corporate Profit Tax (tax on profit)

→ undistributed profits (corporate saving)

(iii) **Mixed Income:** Income of the self-employed persons using their own labour, land, capital, and owner, to produce goods & services. For e.g. an owner uses himself in place of manager or any other type of labour, or his car, or his building instead of other.

When we add above values, we get NDP_{FC} (domestic income)

Operating Surplus + Compensation of Employees+ Mixed Income = Domestic Income (NDP_{FC})

Precautions:

(i) Transfer earnings like old age pensions, scholarships etc. should not be included in National Income.

(ii) Income from illegal activities is not to be included.

(iii) Brokerage on sale and purchase of bonds should be included.

(iv) Commission on sale and purchase of second hand goods should be included.

(v) Income from lotteries or capital gain should not be included.

(vi) if any item is separately listed then it should not be included. For e.g. if value of operating surplus is given and we have separate value of wages & salaries, then wages & salaries should not be included while calculating national income.

Expenditure Method:- As we know, "Production creates income, income creates expenditure". If we want to calculate National Income by this method, we have to add different final expenditures from an economy. By adding all final expenditure we get GDP_{MP}.

Components of Expenditure Method:-

(i) Private Final Consumption Expenditure(C)

(ii) Government Final consumption Expenditure(G)

(iii) Investment Expenditure(I):

It includes, = Business Fixed Investment (Purchase of fixed assets)

+ Residential Construction

+ Public Investment (Roads, dams, bridges)

+ Inventory Investment (change in stock)

+ Net Acquisition of Valuables(Gold, Diamonds)

(iv) Net Exports (**X-M**) = Exports – Imports

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

Domestic Income (NDP_{FC}) = GDP_{MP} –Depreciation-Net Indirect Taxes