UNIT – I

National income: the aggregative picture

GDP · GNP · Methods · Difficulties

Explanatory Lecture Slides

Economic Theory & Public Finance · Major-3 · Semester III

ECONOMIC THEORY & PUBLIC FINANCE

LEARNING OBJECTIVES

Topics covered in this unit

01 **Define national income and its variants**

02 **Distinguish GDP, GNP, NNP, PI, DI**

03 **Name the three methods of measurement**

04 **State Indian difficulties**

05 **Sketch the circular flow**

06 **Hook NI to the Finance Commission and Art. 280**

UNIT I · SYLLABUS MAP

How this unit is organised

01	02	03	04	05	06
Meaning	The family of aggregates	Three methods	Indian difficulties	Circular flow	Why a lawyer cares

Meaning of national income

The money value of all final goods and services produced by the normal residents of a country in a year.

- A flow, not a stock. Do not count intermediate goods (double counting).
- KSLU wants the Marshall/Pigou/Fisher flavour plus the CSO operational definition.
- Factor cost v market price: indirect taxes minus subsidies sit between them.

Meaning of national income

FLOW

- A year of output, not the nation’s wealth.

FINAL ONLY

- Bread, not the flour already inside it.

The family of aggregates

GDP (territory) → GNP (residents) → NNP (minus depreciation) → NI at factor cost → Personal income → Disposable income.

- GDP + net factor income from abroad = GNP.
- NNP at factor cost is the textbook ‘national income’.
- Per capita NI is the political number; median income is the honest one.

The family of aggregates

TERRITORY

- GDP — production inside India, whoever owns the factory.

RESIDENTS

- GNP — Indian-owned factors, wherever they work.

Three methods

Product (value added), income (rent+wages+interest+profit), expenditure (C+I+G+NX).

- In a closed complete account they must match. In India they do not, so we have a ‘discrepancy’.
- Product is the CSO workhorse (GVA by industry). Expenditure is the demand side the Budget talks.

Three methods

MUST NAME

- Product.
- Income.
- Expenditure.

TRAP

- Adding all three together — that is triple counting.

Difficulties in India

Non-monetised sector, unorganised labour, tax evasion, poor crop estimates, illegal income, regional price variation.

- A 10-mark that writes itself if you give five difficulties and one implication for tax/welfare targeting.
- GST and digital payments have improved the trail; they have not finished it.

Difficulties in India

REAL	IMPLICATION
• Unorganised 80%+ of employment. • Black income.	• Poverty counts and Finance Commission transfers rest on a noisy base.

Circular flow

Two-sector: households ↔ firms. Three-sector adds government. Four-sector adds the rest of the world.

- Leakages: saving, tax, imports. Injections: investment, government spending, exports.
- Equilibrium: leakages = injections. That sentence is the bridge to Keynes in Unit II.

Circular flow

LEAKAGES

- S, T, M.

INJECTIONS

- I, G, X.

Why a lawyer cares

Finance Commission (Art. 280) divides a NI-based tax pool; FRBM talks deficits as a share of GDP; damages in large commercial suits sometimes need a ‘but-for’ output story.

- Quote Art. 280 and the latest Finance Commission’s name. Do not invent a GDP figure.

Why a lawyer cares

CONSTITUTION

- Art. 280.
- Art. 112 Annual Financial Statement.

STATUTE

- FRBM Act 2003.
- Collection of Statistics Act 2008.

Difficulties in India

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LANDMARK AUTHORITIES

Cases a KSLU answer should name

CASE

Kesavananda Bharati

(1973) 4 SCC 225

The Budget and tax power still sit inside a Constitution that cannot be gutted — public finance is not extra-constitutional.

CASE

In re Special Reference (Natural Resources)

(2012) 10 SCC 1

National wealth (spectrum) is not a private cash-flow; NI accounting and public trust meet.

CASE

R.C. Cooper v Union of India

(1970) 1 SCC 248

Bank nationalisation — the State rearranging the income side of the circular flow must still pay just compensation as then required.

STATUTE / SECTION MAP

Provisions & materials to quote

Art. 112	Annual Financial Statement — the Budget as a constitutional NI document.
Art. 280	Finance Commission — sharing tax proceeds against a federal NI picture.
FRBM Act 2003	Deficit as a ratio of GDP — the legal skin of an aggregative number.
Collection of Statisti	The legal basis of CSO/MOSPI data.
Art. 265	No tax except by law — revenue that enters NI must have pedigree.

WRITE IT IN THE HALL

10 / 16-mark frames from this unit

Q1 Define national income. Explain GDP, GNP and NNP.

Q2 Explain the methods of measuring national income. What difficulties arise in India?

Q3 What is circular flow of income? Distinguish leakages and injections.

Q4 Write a note on national income at factor cost and at market price.

BEFORE YOU CLOSE THE FILE

Unit recap

1. NI is a flow of final output, not a pile of wealth.
2. GDP territory, GNP residents, NNP minus depreciation.
3. Three methods; never add them.
4. Indian difficulties are a 10-mark of their own.
5. Art. 280 and FRBM are the legal hooks.