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Chapter :- 1

National Income and Related Aggregate

Emergence of Macroeconomics :-

According to J.M. Keynees "The general theory of employement interest and money studies of two different branches once again assumed greater significance"

Meaning of Macroeconomics :-

Macro term is derived from the 'Makros' of greek language which means large. Thus macroeconomic studies economic issue at the aggregate level or the level of the economy as a whole.

In simple words, macroeconomics deals with the problem of the full employement of resources and aggregate of economic system as a whole.

Macroeconomic theory deals with the problem of the fuller employement.

Important problem under macroeconomics :-

- → National income.
- → Aggregate employement.
- → Utilisation of economic resources
- → Aggregate saving and investment.

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→ General labour of price
→ Aggregate of output

Accumulation of   of fixed assets stock of non-durable goods :-

Financial assets, ~~pate~~ patent and other intangible assets during the period of account less then insurance of liabilities.

Definition of Macroeconomics :-

According to K.E Boulding :-

Macroeconomics deals not with individual quality but it aggregate of these quantities not with individual incomes but with national income not with individual prices but with prices level not with individual output but with the National output.

Important and use of Macroeconomics :-

i) Helpful in formulation of economic policies.
ii) Study of fluctuation in economy.
iii) Helpful in comparision
iv) Measurement of economic development.
v) Estimation of welfare.
vi) Study of inflation and deflation.

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Comparision of Micro and Macro economics :-

Micro and Macroeconomics both are branches of economics on one hand, microeconomics deals with individual fact ~~and~~ branches, flowers, leaf, etc. On the other hand Macroeconomics deals with aggregate facts whole ~~tree~~ tree Micro and Macroeconomics are complementary the sense that they supplement each other for effect economic analysis both play important role in formation of the economic principle.

Major sector of an economy :-

→ Household
→ Firm
→ Government
→ External sector

Basic concept of macroeconomics :-

There are various concept of macroeconomics some important concept of macroeconomics are as follows :

i) Consumption Goods.
ii) Capital Goods.
iii) Final Goods.
iv) Intermediate Goods.

Causes	This mention wear and tear in the value of assets due to its constant use or absolescence.	Capital loss is it is the loss capital rate nature cause by natural calami-ties
Predictbility	This forseen and predicable.	It is unforseen and unpredicable
Provision	Provision for depreciation is maintained to replace the assets.	Provision for capital loss is not maintain-ed
Production Process	In the situation production process is continous	Loss of the capital assets are stock production.

* Durable goods &
* Service
* Semi-durable goods
* Perishable or non-durable goods

Some of the basic concept of macroeconomics are as follows:-

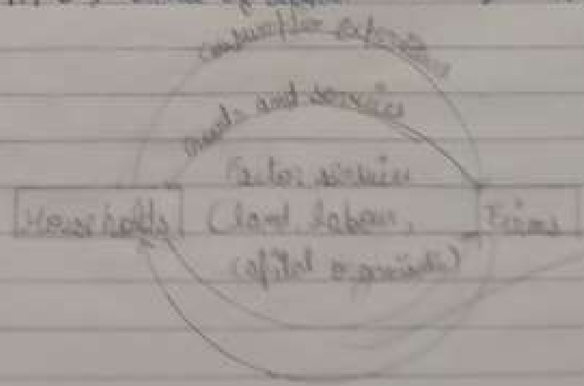
i) Consumption goods and capital goods
ii) Intermediate goods and final goods
iii) Stock and flow
iv) Gross investment and net investment
v) Depreciation

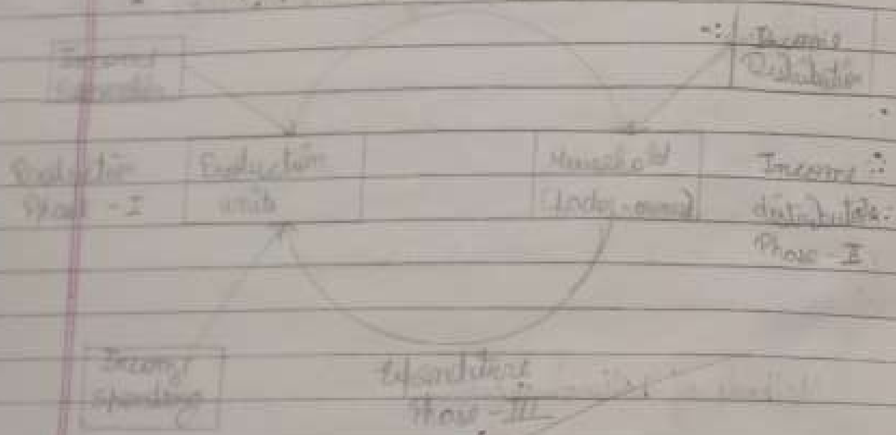
Methods of national income:-

i) Value added method (production method)
ii) Income distribution
iii) Final expenditure

* NVAFC = Net value added factor cost
* GVA_{mp} = Gross value added at market price
* NIT = Net indirect tax

NVAFC ⇒ Value of output - IC - D - NIT





Circular flow of income (phases)

Precaution be taken under value added method are:-

⇒ Flow Diagram for understanding the concepts related to value added (Production method)

Value of output
↓ less Intermediate consumption
Gross value added at market price
↓ less Consumption of fixed capital
Net value added at market price
↓ less Net indirect taxes
Net value added at factor cost
$NVA_{FC} = NDP_{FC}$ = Domestic income

where,

(a) Value of output = Sales + change in stock
= Sales + (closing stock - opening stock)

(b) Gross value added at market price = Value of output - Intermediate consumption

(c) Net value added at factor cost = Net value added at market price - Net indirect taxes

Net value added at factor cost = Net domestic product at factor cost = Domestic income

⇒ Flow of diagram for calculating national income by the value added method:-

(a) Gross value added in primary sector
+ (b) Gross value added in secondary sector
+ (c) Gross value added in tertiary sector

⇒

Gross value added at market price or GDP_{MP}
$(a+b+c)$

↓ Less : Consumption of fixed capital (d)

Net value added at market price or NDP_{MP}
$(a+b+c-d)$

↓ Less : Net indirect taxes (e)

Net value added at factor cost or NDP_{FC}
$(a+b+c-d-e)$

↓ Add : Net factor income from abroad (f)

National income or NDP_{FC}
$(a+b+c-d-e+f)$

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