School - Raisina Bengali School, Mandir Marg

Class - XII Teacher Ms Geeta Sablania

Sub - Economics

Unit - Value Added (Double counting)

Date - 4-May 2020

* content to be discussed.

* In today's class students will be able to understand double counting method.

* Previous assignment will be discussed.

PRECAUTIONS OF VALUE ADDED METHOD

1) Intermediate goods are not to be included in National Income as it will lead to double counting.

2) Sale and purchase of second hand goods is not included as they were included in the year in which they were produced and do not add to current flow of good and services.

Note: Any commission or brokerage on sale or purchase of such goods will be included in National Income as it is a productive service.

3) Production of services for self-consumption (domestic services) are not included like services of housewife, kitchen gardening as it is difficult to measure its market value.

Note - Paid services like services of maids, drivers, pvt tutors etc should be included in National Income.

4) Production of goods for self-consumption will be included in National income as they contribute to current output

5) Imputed value of the owner occupied houses should be included because value of such housing services is estimated according to market rent of similar accomodation estimated rent is known as imputed rent.

6) Change in stock of Goods will be included (inventory) as it is a part of capital formation.

Double counting:

In measuring the national income, we only include the value of final goods and services.
Double counting refers to counting on an output more than once while passing through various stages of production.

$$\text{Farmer} \xrightarrow[\text{for ₹500}]{\text{Sells wheat}} \text{Miller} \xrightarrow[\text{flour for ₹700}]{\text{Sells}} \text{Baker} \xrightarrow[\text{for ₹1000}]{\text{Sells bread}} \text{Consum}$$

Output	Wheat	Flour	Bread
value of o/t	500	₹ 700	₹ 1000
value of input	0	wheat ₹ 500	Flour ₹ 700
value Added	500	₹ 200	₹ 300

* In the given example, wheat is the final product for the farmer, flour for the miller and bread for baker. Every producer treats his commodity as final output, it means total value of output
= 500 + 700 + 1000
= 2200

But each transaction contains value of intermediate goods.
For example value of wheat is included in value of flour, value of flour is included in the value of bread. As a result value of wheat and value of flour is counted more than once and over estimation of goods and services produced.
In order to find correct national income double counting problem need to be avoided.

INCOME METHOD

Compensation of Employees

a) Wages and Salaries in cash

Monetary benefits like [wages, Salaries, bonus, dearness allowance, commission, Pension]

b) Wages and Salaries in kind

Non Monetary benefits [rent free home, free car, free medical, free education facilities]

c) Employer's contribution to social security schemes

eg: Contribution to PF, gratuity, labour welfare funds.

Operating Surplus

- Income from Property
  - Rent
    - actual rent
    - Imputed rent
  - Royalty
  - Interest
- Income from enterpreneurship
  - PROFIT
    - Corporate Tax / Profit Tax / business Tax /
    - Profit after tax
      - Dividend / distributed profit to shareholders
      - Retained earning / undistributed profit

Mixed Income of Self-Employed

NOTE

Interest income does not include.

1) Interest paid by govt on public debt.

2) Interest paid by consumers as such interest is paid on loans taken for consumption purpose.

3) Interest paid by one firm to another firm.