UNIT-3.

*. National Income - National Income is the sum total of value added in all the economic enterpricer belonging to the country.

Precautions during the calculation of national Income-

1- Income from the second hand goods should be enclided.

Illegal and windfall gains.

Tax should not be siperately included.

value of production foer self consumption shall be added.

Private and government consumption shall be subtract.

Enclude the personal services.

Second hand goods purchased from abroad shall be added.

☆ GDP (Gross Domestic Product) :-
It is the estimated as the sum of net value added by the different producing unit in a year.
The territory factor is applied over the GDP because GDP belongs to the domestic territory.

All the political boundries.
Production in the ambassies.
Ships and aeroplane territories and area.

☆ GNP (Gross National Product) :-
GNP is defined as the sum total of the gross domestic product & Net factor Income from abroad.

$$GNP = GDP + NFIA$$

☆ Unemployement :- Unemployement is the unability of labour force and participant to find jobs.

Underemployment :- It is a condition where the job seekers get jobs under their ability and skills.

☆ Reasons of unemployment -

- Seasonal unemployment - Due to the seasonal changes and unemploy.

- Frictional unemployment - It is the unemployment period b/w the switch over jobs.
- Structural unemployment - It is the unemployment based upon the supply of jobs in a specific periods.

★ Inflation :- Inflation is an economic state where the money uses its value. In general the money has three features.

1- Exchange power.
2- Purchasing power.
3- Value
4- Currency.

In the inflation the general price rises and the money value falls.

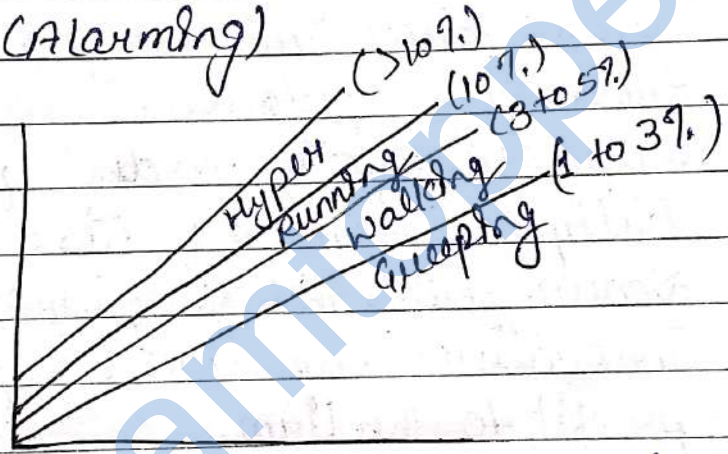
Reasons for Inflation -

1- Demand pull Inflation -
When the aggregate demand exceeds the supply then it is known as demand pull inflation.

2- Cost pull Inflation -
When the wages are increased in the market then it affects the production prices & cost which result into higher price into commodity to purchase the same quantity of commodity

3- Other-
a) Any specific condition.
b) Government control.
c) Individual choice and fashion.

★ Types of Inflation-
- Creeping.
- Walking
- Running (Alarming)
- Hyper.



Open Inflation:- When the government does not apply majors to control the inflation then it is known as open inflation.
Suppressed Inflation:- When government put some major to control the inflation in the market then it is known as suppressed inflation.

★ Techniques to control Inflation -
1- Population growth control.
2- Rectification of black money.
3- Avoid overdependence over agriculture.
4- Bank rates (Interest)

★. Profit maximization – Profit is the surplus over the cost which is received by a firm after selling a unit of commodity.

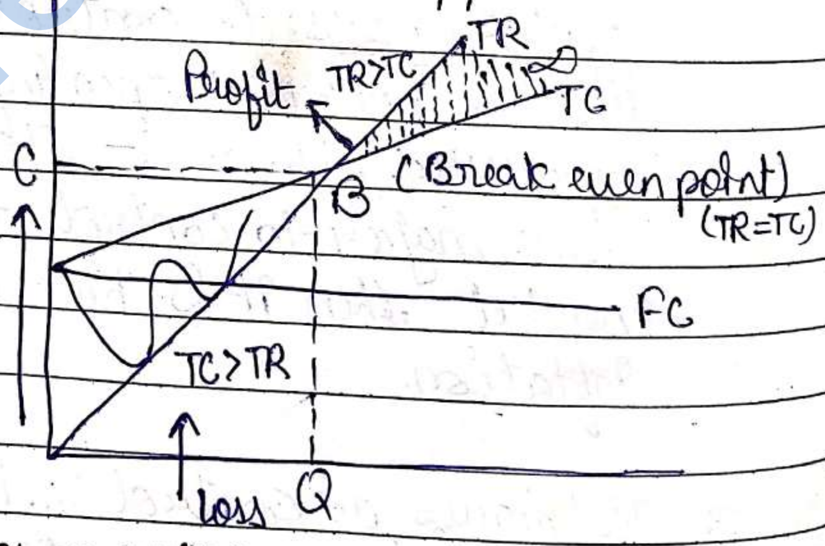
Various theories of profit :-

1- Walker's theory of profit – Profit is rent of ~~exp~~ exceptional ability of enterpreneur.

2- Dynamic theory of clark :- The profit can be earned only in the dynamic conditions.
Increasing population.
Improvement in product quality and Techniques
Multiple Consumer's wants.

3- Schum Peter's theory of innovation :- Only the innovative commodities & practices bring profit to the firm.

4- Total revenue and total approach –



★. Functions of profit :-

1- A normal profit always prevent competition in the markets and it is stamps the barriers between the competitive firms.

2- Profit always project a favourable public

Image.

3- Profit is an Important factor in making of Costumer goodwill.

4- Profit is necessary for social welfare.

5- Profit is needed for the technological Improvement.

★. Profit Policies :-

1- Least cost Combination - The firm should put the efforts in order to using less Input for producing larger amount.

2- One product firm.

3- Normal profit - It is a kind of reasonable profit which give the Investment to the firm as well as discount to the customers.

Profit is necessary for firm survival because the business environment is full of ups and down and lots of things involved are.

★ Monitory policy :- Monetary policy is an Instrument which affect the credit flow in an economy.

Objective of monetary policy -

1- Stability in price level.

2- Economic development.

3- Arrangement of full employment.

4- Expansion of credit facility.
5- Economic equality and justice.
6- Stability in exchange rate.

Instruments of monetary policy-

1- Bank rate policy- Bank rates are the interest charged by the banks under the guidelines of RBI.

2- Open Market operation- It is a technique forward by the central bank of country. The central bank place the open interaction in the market by sale or purchase of assets, gold, government securities etc.

3- CRR (Cash Reserve Ratio)- Commercial bank has to keep a certain percentage of its deposit with central bank.

4- SLR (Statutory liquidity Ratio)- Commercial banks are required to keep a fin percentage of its deposit liquid assets.

*. Fiscal policy:- Fiscal policy is related to taxation and public expenditure and it is also the measurement of tax structure in an economy.

In short fiscal policy contains the steps in order to fulfil the aims of economic policy.

Objectives of fiscal policy -
To achieve the full employement in the economy.
To arrange the enough money to run the welfare program.
To guide the resource allocation.
To attain the economic growth in long run.

Techniques / Instruments -
1- Public expenditure - To maintain the infrastructure for the public utility. For the productive economy.
2- Public debt - When government expenditure is more than government revenue then it is known as public debt.
3- Taxation - Taxation is the source of revenue which helps out the gover to do their expenditures and it is generated by the general public.

★ Types of taxes :-
1- Direct tax - These are the taxes which a person pay to the government directly for himself and cannot enforce on another. Ex- Income-tax, house-tax, wealth-tax.

2- Indirect tax - These are the taxes which are paid indirectly and transferable.
Ex- Sales tax, excise tax etc.

☆. Circular flow of economy :-