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B.A. I Paper - II

Topic - Determination

of N.I by Production

Method or Value

Added Method

Value Added Method / Production Method or Output Method.

The production or value added method of calculating N.I measures it by estimating the contribution of each producing unit enterprise to the production in domestic territory of the country in an accounting year.

It involves following steps

Step-1

In the first step production units are classified into different sectors —

(a) Primary sector - which includes all producing units which produces commodities by exploiting natural resources.

(b) secondary sector - which transforms one type of commodity into another.

(c) tertiary sector - which provides services to both primary and secondary sector producing tangible goods.

### Step II

In this step we calculate the value added by each sector deducting the value of intermediate consumption from the final value of output from each sector as -

(i) Value of output in

PS \_\_\_\_\_

SS \_\_\_\_\_

TS \_\_\_\_\_

→ Value in PS

→ Value in SS

→ Value in TS

(ii) Value of intermediate consumption in

PS \_\_\_\_\_

SS \_\_\_\_\_

TS \_\_\_\_\_

### Step III

In this step we calculate the value of  $GDP_{MP}$  by adding all the three concepts as

$$GDP_{MP} = \text{Value added in PS}$$

+

Value added in SS

+

Value added in TS

### Step IV

In this final step, we calculate the value of N.I by deducting the value of depreciation and net indirect tax and adding the net factor income from abroad to GDP<sub>MP</sub>

$$\text{GDP}_{MP} \rightarrow \text{NNP}_{FC}$$

$$* \text{GDP}_{MP} - \text{Depreciation} + \text{NFIA} - \text{NIT} = \text{NNP}_{FC}$$