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WORKSHEET 18

SCHOOL: BA SANGAM COLLEGE **YEAR: 12** **Name:____________**

SUBJECT: ECONOMICS

Strand	3. Macroeconomics
Sub Strand	3.1 National Income Approaches
Content Learning Outcome	EC 12.3.1.1 Evaluate the different approaches of calculating National Income together with its limitations.

LESSON NOTES - NATIONAL INCOME

LIMITATIONS OF GDP

1. The GDP figures do not take into account the following items.

(i) Non market activities i.e. the household production is not taken into account while calculating GDP. If the goods and services are sold, it can be counted but if it is not sold it is not counted therefore excluded in GDP figures. Example voluntary labour

(ii) Goods and services traded on informal markets.

(iii) Illegal market activities are not counted e.g. drugs, leisure activities are also not accounted for in GDP figures.

2. The relative merit of production – there is no distinction in the national income account of the relative “goods” or “bads” of production. For e.g. a dollar spent on cigarettes may carry out the same weight as a dollar spent on education.

3. Distribution of Income – GDP is an aggregate or a total output. It gives no indication of how this production is distributed.

4. Social conditions, GDP does not take into account for: a) Resources that were not used e.g. production lost through unemployment. b) The relative social, political or the working conditions of the economy that create the output.

5. Ecological cost are underestimated in the calculation of GDP i.e. externalities created by economic activity.

6. Role of women are under represented in calculation of GDP e.g. the motherhood and the child care that moulds the young for future generation which in turn contributes to a great deal in the economy is under represented.

7. Transfer of existing assets is not counted in GDP

Calculations under National Income

Gross National Income	GNI is the national turnover of goods and services **GNI =GDP –NX**
Gross National Expenditure	GNE is Gross National Product **GNE=C+I+G**
GDP At Factor Cost	**GDP at factor cost = GDP- (indirect tax –subsidy +dep)** GDP at factor cost is same as Domestic Factor Income **DFI =r+w+i+p**
GDP At Market Prices	Refers to cost of final goods and services under current market prices. **GDP = C+I+G+(X-M)**

ACTIVITY

1. The measure of the money value of all goods and services that is produced within the borders of an economy is known as A. Gross Domestic Product. C. Domestic Gross Product.

B. Gross Domestic Income. D. Domestic Gross Income.

2. Which of the following will increase the level of real GDP per capita of a country?
A. Increase in population C. Decrease in production
B. Decrease in population D. Increase in consumptio

3. An economy's income is the same as its expenditure because
A. all transactions have sellers only. B. every dollar earned is saved in banks.
C. households only spend their income portions. D. every dollar spent is a dollar of income earned.
(3 marks)

4. Differentiate between GDP at market price and GDP at factor price. (2 marks)

5. Identify the item which is used to balance income and expenditure approaches.

(1 mark)

6. State another term used to describe **Value Added method** of production.________________ (1 mark)

7. Read the resource below and answer questions

A farmer owns 30 hectares of land and sells dalo to a middleman in the market. The middleman agrees to pay the farmer $10 for every bundle of dalo from the farm. The farmer sold 100 bundles of dalo for the first year. The middleman then sells the 100 bundles of dalo to a cafe owner for $20. The cafe owner hires a vehicle to transport the dalo to her cafe and pays it $5 a bundle for the transportation.

Calculate the value added by each of the following people in the first year

(I) Farmer ____________________________
(II) Middleman ________________________
(III) Cafe owner ________________________ (3 marks)

THE END