Uses of national income accounting

Plot Indias GDP at market prices and factor cost at current prices for the period 1950-51 to 2008-09. Comment on it. After the implementation of liberalization policies in 1990-91 we can see a steady growth in the GDP @ Market cost & GDP @ Factor cost (Current Prices).

Comment on the overall growth story of India during each of the sub- phases in detail. Rationalize the volatility of these growth rates.

Sub-Phase 1(1970-1971 to 1984-1985): This period saw a GDP growth rate of 65. 034% with a CAGR of 65. 034. The Agriculture sector saw a growth rate of 35. 37% while manufacturing sector saw a growth rate of 90. 28% and the Services sector saw a growth rate of 85. 37%. During this phase the economy was pre-dominantly a closed one. There was significant nationalization of banks. Also there was a period of negative growth rate of -5. 21% in 1979-1980, owing to the global oil-crisis. The average growth rate of GDP was 3. 71%. Some initiatives were taken by the Government towards Industrialization and the result can be seen in a good growth rate of the manufacturing sector. There was marked volatility in the GDP growth rate owing to events like Oil-Crisis and the war of Pakistan in 1971. This led to periods of negative growth between 1972-1973 and 1979-1980.

Sub-Phase 2(1985-1986 to 1994-1995): This period saw a GDP growth rate of 59. 75%, a bit lower than the last period. There was huge deficit and Government had to borrow lots of funds. This reduced the Government spending in the manufacturing sector which fell to 66. 89%. Agriculture sector grew at the same rate as the previous period ie. 34. 96%. Whereas, there was a decline in the service sector growth rate to 72. 86%. The economy was going through a rough phase. The average Growth rate was 5. 366%. The effects of liberalization began to show, although not fully, with a somewhat better growth rate in the average GDP.

Sub-Phase 3(1995-1996 to 2008-2009): This happens to be the best phase of the three. The effects of Liberalization were clearly visible during this phase and Services sector grew at a tremendous rate of 200. 02%. The cumulative GDP growth rate was 139. 04%. The Manufacturing sector also grew at a brisk rate of 115. 37% due to the increase in competition and entry of many private players due to liberalization. Agriculture sector, however, lagged behind at 48. 23%. The average GDP growth rate during this period was, 6. 95%. There was very less volatility during this phase as the economy was growing at a steady rate. Between 2005 and 2008 the economy grew at a brisk rate of over 9%.

Plot India's overall GDP, GDP agriculture, GDP industry, & GDP services at factor cost at current & constant prices for the period 1990-91 to 2008-09. Comment on the share of GDP components over the period, and the rationale behind such observance.

The percentage share of GDP for Agriculture sector decreased from 28. 75 in 1990-91 to 16. 34 in 2007-08, for Industry sector it remains almost constant (varies from 19. 80 in 1990-91 to 18. 50 in 2008-09) and for the Service sector it increased from 48. 33 in 1990-91 to 64. 55 in 2008-09.

These figures indicate that after liberalization in 1990-91, there is a tremendous growth in Indian Service Sector. This is also clearly visible if we look for the growth of Indian IT and ITES industries. India is dominating worldwide in this sector and this is the major contributor of the Indian GDP. FOr the agriculture sector, while India’s major population still depends on the agriculture but its overall contribution to the GDP has come down due to the increased contribution by other sectors.

Explain in brief the importance and use of national income accounting in business.

The statistics for Gross Domestic Product (GDP) are computed as part of the National Income and Product Accounts. This national accounting system is the source of much of the information we have about the economy. Like business accounting, national-income accounting uses a double-entry approach. Because each transaction has two sides, involving both a sale and a purchase, there are two ways to divide up GDP. One can look at the expenditures for output, or one can look at the incomes that the production of output generates.

Just as firms need to know how well they are doing, so does a country. National income accounting provides the statistics to determine if the economy is encountering difficulties. As a business manager the national income accounting is of utmost importance as doing the trend analysis as well as by analyzing the data of national income, the business manager can take important decisions regarding the strategy of that year and future. He/she can forecast the demand and hence decide on the optimal production plan. Further decisions on the business plans like new recruitment in case of increased demand anticipation etc can be taken.