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Factors affecting GDP of India

Rimpy Rana
M.A. Economics Panjab University, Chandigarh, India

Abstract
The economic growth of a nation is evaluated using Gross Domestic Product. The level of investment is very crucial for GDP. It is observed that if the rate of investment goes higher than that of depreciation then a reasonable growth in GDP is observed.
GDP is measured in the means of total market value of all final goods and services produced in a year. Currently, the GDP of India has moved to 7.2 from 6.5. The imbalance between poverty and economy also affects GDP rate. It is also observed that the balance between demand and supply should be at same level or it can be said that the level of demand should be higher so as to raise the bar of GDP. The current paper highlights the factors which affect GDP of India.

Keywords: GDP, Economy, Goods

1. Introduction

There are mainly three approaches which are used to determine the GDP. These three approaches are known as production approach, income approach and expenditure approach. The most used approach is production approach where final total is got from the total of every class of enterprise.

The approach of expenditure works on the principle that all the products produced must be bought by somebody. Hence, the value of produced products will be equivalent to that of expenditures in buying all these. Last but not the least is income approach which follows the principle that the income of producers must be equivalent to that of their products and GDP is measured by the summation of income of all producers.

GDP can't be termed as genuine as in countries like India where most of people get their income by cash not in bank account. Further, the service bill of venders is also paid in cash. So these kinds of transactions are not come into play and not counted for the final GDP.

The program of digital India which was promoted during demonetization was successful in the initial phase. But, it is observed that after one year of demonetization, people have moved back to pay in cash mode from digital mode.

With the introduction of GST in India domestic market, most of the retailers have come under government prosperity and they have to pay all the gathered taxes month-wise which certainly improves the level of GDP.

Price system played a crucial role in the classical macroeconomic models. Income is either spent on the current consumption or saved for the future consumption. The real sector equilibrium is guaranteed by equality between the saving and investment. The price level is proportional to supply of money and the monetary neutrality is maintained by perfectly flexible real prices. An aggregate demand always equals the aggregate supply. The main objective of government is to ensure law and order so that business enterprises could grow and contribute to the country's economy.

GDP can be contrasted with gross national product (GNP) or, as it is now known, gross national income (GNI). The difference is that GDP defines its scope according to location, while GNI defines its scope according to ownership. In a global context, world GDP and world GNI are, therefore, equivalent terms.

GDP is product produced within a country's borders; GNI is product produced by enterprises owned by a country's citizens. The two would be the same if all of the productive enterprises in a country were owned by its own citizens, and those citizens did not own productive enterprises in any other countries. In practice, however, foreign ownership makes GDP and GNI non-identical.

Discussion

Production within a country's borders, but by an enterprise owned by somebody outside the country, counts as part of its GDP but not its GNI; on the other hand, production by an enterprise located outside the country, but owned by one of its citizens, counts as part of its GNI but not its GDP.

For example, the GNI of the USA is the value of output produced by American-owned firms, regardless of where the firms are located. Similarly, if a country becomes increasingly in debt, and spends large amounts of income servicing this debt this will be reflected in a decreased GNI but not a decreased GDP. Similarly, if a country sells off its resources to entities outside their country this will also be reflected over time in decreased GNI, but not decreased GDP. This would make the use of GDP more attractive for politicians in countries with increasing national debt and decreasing assets.

The raw GDP figure as given by the equations above is called the nominal, historical, or current, GDP. When one compares GDP figures from one year to another, it is desirable to compensate for changes in the value of money – i.e., for the effects of inflation or deflation. To make it more meaningful

for year-to-year comparisons, it may be multiplied by the ratio between the value of money in the year the GDP was measured and the value of money in a base year.
The factor used to convert GDP from current to constant values in this way is called the *GDP deflator*. Unlike consumer price index, which measures inflation or deflation in the price of household consumer goods, the GDP deflator measures changes in the prices of all domestically produced goods and services in an economy including investment goods and government services, as well as household consumption goods.
The major advantage of GDP per capita as an indicator of standard of living is that it is measured frequently, widely, and consistently. It is measured frequently in that most countries provide information on GDP on a quarterly basis, allowing trends to be seen quickly. It is measured widely in that some measure of GDP is available for almost every country in the world, allowing inter-country comparisons. It is measured consistently in that the technical definition of GDP is relatively consistent among countries.

Factor Affecting Gdp

Leisure Preference

Due to technological progress, average productivity of resources (including manpower) has gone up in most industrialised countries.
This has enabled workers to enjoy more leisure.
The increased leisure available to the workers allows them to enjoy more recreation in the form of weekend terms and pursuing cultural activities.
Their activities are, no doubt, welfare- enhancing in nature. But their extra hours of leisure are not priced in markets and, therefore, do not get reflected in GDP.

Non-Marketed Activities

All economically important activities are not bought and sold in market. With a few exceptions, such as government services, non-marketed economic activities are omitted from GDP. An example is unpaid housekeeping services. Another example is voluntary services of NGOs such as volunteer free service and education services offered free of cost to poor children in slums. Such unpaid and un-priced services, no doubt, increase social welfare. But they are omitted from GDP, because it is difficult to estimate their market values.

Underground Economy

Many activities are performed unofficially. The underground economy includes both legal and illegal activities from informal (private) nursing, house cleaning or child care to organised crime. House cleaners or plumbers are paid in cash. Such transactions go unnoticed by the tax authorities. However, such activities have a welfare implication. No doubt, they may enhance or reduce social welfare.

Environmental Quality and Resource Depletion

China and India have recently achieved tremendous growth in real GDP and are cited as two models of globalisation. But in expanding their manufacturing base, both countries have also suffered from a severe decline in air and water quality. Increased pollution certainly reduces the quality of life. But because air and water quality are not bought and sold in markets, the Indian GDP does not reflect this downside of its economic growth.
The explanation of finite (non-renewable) natural resources also tends to be overlooked in GDP. If more oil is extracted today, less oil will be available in future. But this fact is not reflected in GDP.
Incorporating factors like air quality and resource depletion into a comprehensive measure of GDP is difficult, since it often involves placing a rupee on intangibles, like having a clean river to take water instead of a dirty one. But the fact that the benefits of environmental quality and resource conservation are not measured in terms of money, does not mean that they are unimportant.

Quality of Life

Various factors make a particular town or city an attractive place to live. Some of these desirable features get reflected in GDP: spacious, well-constructed homes, good star hotels and restaurants, a variety of entertaining and high-quality medical services. However, other indicators of good life are not sold in markets and so may be omitted from GDP.
Examples include a low crime rate, minimum traffic congestion, active civic organizations (like municipal corporations) and open space.

Poverty and Economic Inequality

With increase in per capita income, the incidence of poverty often goes up. So, social welfare diminishes. This is what has happened in India over the plan period. Although India has achieved a satisfactory growth rate in recent years, the planners have failed to alleviate poverty in 56 years.
Even though a dent has been made on poverty in recent years due to financial assistance from the World Bank and the IMF, the degree of income inequality has increased rather than diminished even though the growth rate has picked up.
Moreover, GDP measures the total quality of goods and services produced and sold in an economy, but it conveys no information about who enjoys those goods and services. Two countries may have identical GDPs but differ markedly in the distribution of economic welfare across the population.
Furthermore people’s economic satisfaction depends not only on their absolute economic position — as measured by the quantity and quality of food, clothing and shelter they have but on what they have compared to what others have.

Conclusion

GDP does not account for the distribution of income among the residents of a country, because GDP is merely an aggregate measure. An economy may be highly developed or growing rapidly, but also contain a wide gap between the rich and the poor in a society. These inequalities often occur on the lines of race, ethnicity, gender, religion, or other minority status within countries. This can lead to misleading characterizations of economic well-being if the income distribution is heavily skewed toward the high end, as the poorer residents will not directly benefit from the overall level of wealth and income generated in their country. Even GDP per capita measures may have the same downside if inequality is high

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