

**NATIONAL INCOME DATA
ANALYSIS
AND
UNEMPLOYMENT IN INDIA**

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Classification Of Unemployment

- Unemployment can be broadly classified under two broad categories –
 - **VOLUNTARY UNEMPLOYMENT** - Unemployment that results when resources which are willing and able to engage in production choose not to produce output. These are resources (especially labor) that decide to leave one job, often in search of another.
 - **INVOLUNTARY UNEMPLOYMENT** - The contrast to voluntary unemployment is involuntary unemployment, in which resources are forced out of work. Involuntary unemployment is also known as **Forced Unemployment**.

Measurement Of Unemployment

The rate of unemployment in a country is measured by the following formula:-

$$\text{Unemployment rate} = \frac{\text{Labour force} - \text{Employed labour}}{\text{Labour Force}} \times 100$$

Or

$$\text{Unemployment rate} = \frac{\text{Number of unemployed}}{\text{Labour Force}} \times 100$$

Structural Unemployment



This unemployment arises due to structural change in dynamic economy. Unemployment caused by massive mismatch of skills or geographic location is noted as **structural unemployment**.

Example: Heavy Manufacture (mining) - Manufacture now involves machines so humans are no longer needed for the harder work.

Structural unemployment poses more of a problem because workers must seek jobs elsewhere or must develop the skills demanded. The process is full of pain and frustration, and may lead to negative impacts on society.

Frictional Unemployment



This is a type of voluntary unemployment that arises because of the time needed to match job seekers with job openings. Just as friction always takes place before the slider comes to its final position on the surface, people need time to find the best job, thus voluntarily rubbing back and forth between choices and staying unemployed

Example: When you make up your mind and set off looking for a better job and abandoning the current one, you are in the frictional unemployment labor force.

Neutrality and Non Neutrality of Money.

- Money is neutral if it affects relative prices and leaves the interest rate unaffected. If this happens instantaneously the neutrality of money is instantaneous. If there is a time lag there is long – run neutrality.
- According to classicists money is neutral in its effect on employment, income and output. Thus, according to them main function is to determine the general price level at which goods and services are exchanged.
- In the Keynesian theory at the full employment level when any increase in the quantity of money brings about a proportionately increase in price level but output remains unchanged at that level.

The Neutrality of Money and Classical Dichotomy!

The classical theory of output and employment is that changes in the quantity of money affect only nominal variables (i.e. money wages, nominal GNP, money balances), and have no influence whatsoever on the real variables of the economy such as real GNP (i.e. output of goods and services produced), level of employment (i.e. number of labour – hours or number of workers employed), real wage rate (i.e. wage rate in terms of its purchasing power).

Actually, according to classical theory, the nominal variables move in proportion to changes in the quantity of money, while real variables such as GNP, employment, real wage rate, real rate of interest remain unaffected.

Product method or value-added method

- Product Method or Value-added method is that method which measures national income by estimating the contribution of each producing enterprise to production in the domestic territory of country in an accounting year.
- Value of output = Sales + change in stock (if some output remains unsold at the end of year)
- Change in stock = closing stock - opening stock

Estimating Value Added

Item produced	Value of Output	Inter-mediate goods	Value Added
Wheat	600	200	400
Flour Mill	800	600	200
Baker	1000	800	200
Shop-keeper	1200	1000	200
Total	3600	2600	1000

- Thus, the gross value added by all producing enterprises is Rs (400+ 200+200+200 = 1000)
- Gross value added by all producing enterprises within the domestic territory of a country during the period of one year is called GDP at M.P.
- Thus, Gross Value added by all producing enterprises in (PRIMARY SECTOR + SECONDARY SECTOR + TERTIARY SECTOR)
=GDP at M.P.

Measurement of N.I. (value-added method)

- GDP at M.P. {Gross value added in Primary-sector + secondary sector+ tertiary sector} - Depreciation = N.D.P. at M.P. - Net Indirect Taxes = N.D.P at F.C. + NFYA = NNP at F.C. (National Income)

Problem of double-counting

- The problem of double-counting is the problem of estimating the value of goods and services more than once.
- This leads to over-estimation of value of goods and services produced.

How to avoid double-counting?

- 1) Final output method- According to this method, value of intermediate goods is deducted from value of output. In other words, value of final goods and services only is included in National Income.

Value of Final Output= {Value of output-value of intermediate goods} (3600-2600=1000)

- 2) Value-added method- Value-added refers to the difference between value of output and value of intermediate consumption of each producing unit. SUM-TOTAL of value-added by all producing units within the domestic territory of a country is equal to domestic-product (400+200+200+200)

Income-Method

- Income-method is that method which measures National-Income in terms of payments made in the form of wages, rent, interest and profit.
- What are Factor-Incomes?
- Factor-Incomes are earned-incomes, transfer payments are unearned.
- Factor-incomes are rewards for rendering factor-services. Transfer payments are just one-sided payments. No service is rendered in return for transfer payments.

Measurement of National- Income(Income- Method)

- NDP at F.C. {compensation of employees+operating surplus+mixed income}
- +
- NFYA {Net factor income from abroad}
- =
- NNP at F.C. {National Income}

EXPENDITURE METHOD

- Expenditure Method is the method which measures final expenditure on GDP at M.P. during an accounting year. FINAL EXPENDITURE is equal to GDP at MP. This is also called Income-Disposal method.

Measurement of N.I (expenditure method)

- 1) Final consumption expenditure {Private+Government} +
- 2) Gross Domestic Capital Formation {Gross domestic fixed capital formation (business/govt/household) + Change in stock (closing stock-opening stock)} +
- 3) Net Exports (Exports-Imports) =
- 4) GDP at M.P. – depreciation = NDP at M.P.- Net Indirect Taxes = NDP at F.C + NFYA = NNP at F.C.