



Collegedunia NCERT Notes

The Ultimate Class 12 Revision Guide

National Income Accounting Class 12 Notes (2026-27)

Class 12 Economics (Macroeconomics) Chapter 1: National Income Accounting

Syllabus 2026-27 • Aligned with the New NCERT Textbook

What you will master in this chapter

Circular flow • Three methods of measuring National Income • GDP, NDP, NNP, NI, PI, PDI chain
Nominal vs Real GDP • GDP Deflator • Savings-Investment Identity • GDP and welfare

*A complete, exam-ready revision pack for Class 12 CBSE Economics.
Formula-rich, numerical-backed, and built around the new NCERT 2026-27 pattern.*

Also see for this chapter: [NCERT Solutions](#)

Contents

1 Quick Concept Recap	2
1.1 Factors of Production and their Rewards	2
1.2 Households, Firms, Government, Rest of the World	2
1.3 Stocks vs Flows	3
1.4 Final Goods, Intermediate Goods, Capital Goods	3
2 Three Methods of Measuring National Income	4
2.1 Method 1: Value Added (Product) Method	4
2.2 Method 2: Income Method	5
2.3 Method 3: Expenditure Method	5
2.4 Three Methods, One Picture	6
3 The Chain of Aggregates: From GDP to PDI	8
3.1 The Three Conversion Pairs	8
3.2 The Full Chain (every Class 12 boards numerical lives here)	9
3.3 Algebraic Chain Spelled Out	9
3.4 Worked Numerical 4 (Aggregate Chain)	9
4 Real GDP, Nominal GDP and the GDP Deflator	11
4.1 Definitions	11
4.2 Worked Numerical 5 (Deflator)	11
4.3 Visualising Real vs Nominal Growth	12
5 Circular Flow of Income	13
5.1 Two-Sector Model (Households $\Leftrightarrow$ Firms)	13
5.2 Three-Sector Model (add Government)	13
5.3 Four-Sector Model (add Rest of the World)	13
6 Limitations of GDP as a Welfare Indicator	15
6.1 The Five Standard Limitations	15
6.2 Beyond GDP: alternative welfare measures	15
7 The Savings-Investment Identity	17
7.1 Derivation of $(I - S) + (G - T) + (X - M) = 0$	17

7.2	Worked Numerical 6 (Savings-Investment)	17
7.3	Visualising the three balances	18
8	Common Mistakes and Formula Reference	19
8.1	Top Pitfalls Across the Three Methods	19
8.2	Items that ARE included vs NOT included in GDP	19
8.3	Formula Sheet (one glance, all chapters)	20
8.4	Mnemonic catalogue	20
9	Past Year Question (PYQ) Trend and Quick Recall	21
9.1	Trend at a glance (CBSE Class 12)	21
9.2	Patterns we can spot	21
9.3	One-page revision sheet	22

1 Quick Concept Recap

National Income Accounting is the system every economy uses to keep score. Before we calculate national income, we need to be fluent with the building blocks of an economy: who produces, who earns, who spends, and how money keeps moving in a never-ending loop. This section refreshes the basics from Class 11 Microeconomics and the opening pages of the NCERT Macro textbook so that the heavy formulas of the next sections feel natural.

1.1 Factors of Production and their Rewards

An economy combines four factors to produce goods and services. Each factor receives a specific reward (factor income), and the sum of all such rewards equals national income measured by the income method.

Four Factors and Four Factor Incomes

Factor	Provided by	Reward
Land	Nature / landowner	Rent
Labour	Workers (skilled, unskilled)	Wages / Compensation of Employees
Capital	Investors / firms	Interest
Entrepreneurship	The risk-taker	Profit

Factor income identity: National Income (NI) = Rent + Wages + Interest + Profit (plus mixed income of the self-employed).

1.2 Households, Firms, Government, Rest of the World

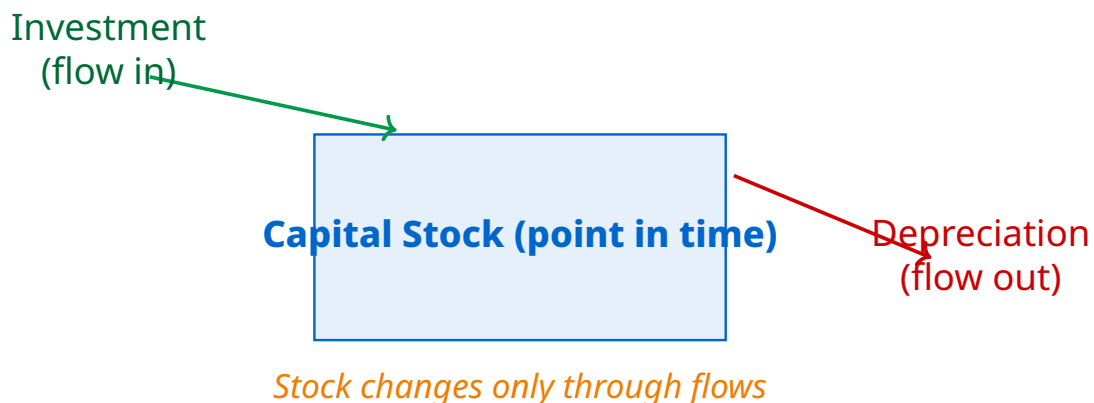
A macro economy is conventionally split into four sectors: **households** (own factors, consume), **firms** (produce, invest), **government** (taxes, spends, transfers), **rest of the world** (exports and imports). The interactions among them define the 2-sector, 3-sector and 4-sector circular flow models, covered in Section 6.

Macro vs Micro: the lens shift

Microeconomics studies a single consumer or firm. Macroeconomics studies aggregates: total output (GDP), the general price level, total employment, total savings. National Income Accounting is the bridge that lets us measure those aggregates in a consistent way.

1.3 Stocks vs Flows

A **stock** is measured at a point in time (wealth, capital, money supply on March 31). A **flow** is measured over a time period (income, output, savings during 2025-26). National income is a flow concept. Capital stock is a stock concept; investment is the flow that increases it.



Stock-vs-Flow Memory Hook

Tank and Tap. The water in the tank is a STOCK; the water flowing through the tap (in or out) is a FLOW. Capital stock $\Leftrightarrow$ tank. Investment and depreciation $\Leftrightarrow$ taps.

1.4 Final Goods, Intermediate Goods, Capital Goods

Only **final goods** enter national income. **Intermediate goods** (raw materials, inputs to other firms) are excluded to avoid double counting. **Capital goods** (machines, plants) are counted as final goods because they are used by the producer themselves for future production, not resold within the year.

Final vs Intermediate: the use test

The same physical good can be either: wheat sold to a household for bread is a **final** good; wheat sold to a bakery is an **intermediate** good. The *end use*, not the nature of the good, decides classification.

2 Three Methods of Measuring National Income

National Income can be measured from three angles, all of which (in theory) yield the same number. The NCERT calls these the **Value Added (Product) Method**, the **Income Method**, and the **Expenditure Method**. Every CBSE board exam since 2018 has carried a 6-mark numerical from one of these three methods. This section explains each one, presents the formula, and walks through a representative worked numerical.

2.1 Method 1: Value Added (Product) Method

GDP at market prices is the sum of **Gross Value Added (GVA)** of all producing enterprises in the domestic territory during a year.

Value Added Method

For one firm: $GVA_{MP} = \text{Value of Output} - \text{Intermediate Consumption}$

Value of Output = Sales + Change in Stock (Closing Stock – Opening Stock)

For the whole economy:

$$GDP_{MP} = \sum_{i=1}^n GVA_{MP,i}$$

Why we subtract Intermediate Consumption

If a farmer sells Rs. 50 of wheat to a baker and the baker sells Rs. 120 of bread, the total value added is Rs. 120 (50 by the farmer, 70 by the baker), not Rs. 170. Adding both sale values would double-count the wheat. Value Added Method strips out double counting by design.

Worked Numerical 1 (Value Added Method). A firm reports the following for 2025-26 (all figures in Rs. crore):

Item	Rs. crore
Sales	800
Opening Stock	60
Closing Stock	90
Purchase of Intermediate Goods (domestic)	250
Imports of Intermediate Goods	70
Indirect Taxes (Net)	40
Depreciation	35

Step 1 – Value of Output:

Value of Output = Sales + Δ Stock = $800 + (90 - 60) = \text{Rs. } 830$ crore.

Step 2 – Intermediate Consumption:

Intermediate Consumption = Domestic Intermediate Purchases + Imports of Intermediates = $250 + 70 = \text{Rs. } 320$ crore.

Step 3 – GVA at MP:

$$GVA_{MP} = 830 - 320 = \text{Rs. } 510 \text{ crore.}$$

Step 4 – NVA at FC:

$$\begin{aligned} NVA_{FC} &= GVA_{MP} - \text{Depreciation} - \text{NIT} \\ &= 510 - 35 - 40 = \text{Rs. } 435 \text{ crore.} \end{aligned}$$

Imports of intermediates: deduct, do not ignore

Imported raw materials are still intermediate consumption. If the question gives you “Imports” without a label, assume they are intermediate goods unless the question explicitly says “imports of consumption goods” or “imports by households”.

2.2 Method 2: Income Method

GDP is the sum of factor incomes paid out by all producing units in the domestic territory during a year.

Income Method

$$NDP_{FC} = \text{Compensation of Employees} + \text{Operating Surplus} + \text{Mixed Income of Self-Employed}$$

where Operating Surplus = Rent + Royalty + Interest + Profit

Then climb up:

$$GDP_{MP} = NDP_{FC} + \text{Depreciation} + \text{Net Indirect Taxes}$$

$$NNP_{FC} (\text{National Income}) = NDP_{FC} + \text{Net Factor Income from Abroad (NFIA)}$$

Worked Numerical 2 (Income Method). Calculate National Income from the following (Rs. crore): Compensation of Employees = 1,500; Rent = 250; Interest = 180; Profit = 320; Mixed Income = 700; Net Factor Income from Abroad = -30; Net Indirect Taxes = 200; Consumption of Fixed Capital = 110.

Step 1 – NDP at Factor Cost:

$$NDP_{FC} = 1500 + (250 + 180 + 320) + 700 = \text{Rs. } 2,950 \text{ crore.}$$

Step 2 – National Income (NNP_{FC}):

$$NNP_{FC} = NDP_{FC} + \text{NFIA} = 2950 + (-30) = \text{Rs. } 2,920 \text{ crore.}$$

2.3 Method 3: Expenditure Method

GDP is the sum of expenditures on final goods and services bought in the economy during a year.

Expenditure Method (the famous $Y = C + I + G + NX$ identity)

$$GDP_{MP} = C + I + G + (X - M)$$

where:

C = Private Final Consumption Expenditure (households)
 I = Gross Domestic Capital Formation (private investment + change in stocks)
 G = Government Final Consumption Expenditure
 $X - M$ = Net Exports (Exports – Imports)

Worked Numerical 3 (Expenditure Method). Given (Rs. crore): Private Final Consumption Expenditure = 4,000; Government Final Consumption Expenditure = 800; Gross Fixed Capital Formation = 1,200; Change in Stocks = 100; Exports = 500; Imports = 600; Consumption of Fixed Capital = 150; Net Indirect Taxes = 250; NFIA = 40. Find National Income.

Step 1 – GDP_{MP}:

I = Gross Fixed Capital Formation + Change in Stocks = 1200 + 100 = 1,300.
 $GDP_{MP} = 4000 + 1300 + 800 + (500 - 600) = \text{Rs. } 6,000 \text{ crore.}$

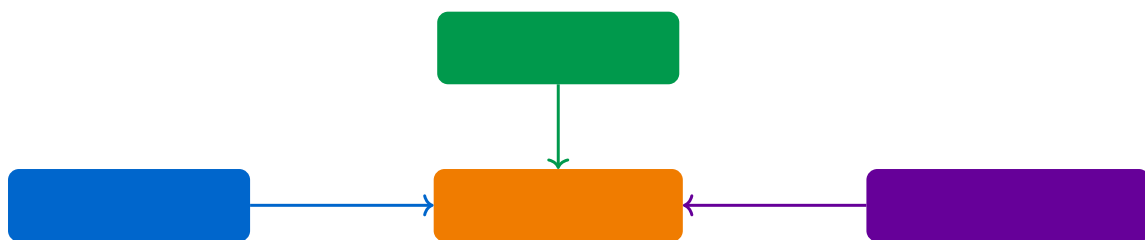
Step 2 – NNP_{FC} (National Income):

$NNP_{FC} = GDP_{MP} - \text{Depreciation} - \text{Net Indirect Taxes} + \text{NFIA}$
 $= 6000 - 150 - 250 + 40 = \text{Rs. } 5,640 \text{ crore.}$

Why three methods, one truth?

The Reserve Bank of India, the Ministry of Statistics (MoSPI), and the National Statistical Office independently estimate India's GDP using Product, Income and Expenditure data, and then reconcile them. The small gap ("statistical discrepancy") you sometimes see in budget documents is the difference between the three estimates.

2.4 Three Methods, One Picture



Sum of Value Added = Sum of Factor Incomes = Sum of Final Expenditures

Most common numerical errors

- Forgetting to add **Change in Stocks** to Sales when computing Value of Output.
- Adding Imports instead of subtracting them in the Expenditure method (Net Exports = $X - M$, not $X + M$).
- Treating **Mixed Income** as Compensation of Employees. They are separate line items.

- Confusing **Gross Fixed Capital Formation** with Net Domestic Capital Formation; the former is gross of depreciation.

3 The Chain of Aggregates: From GDP to PDI

A single CBSE numerical may give you GDP_{MP} and ask for Personal Disposable Income, or vice versa. The whole pyramid is built from one master ladder that connects **Gross/Net**, **Market Price/Factor Cost**, and **Domestic/National**. Internalising this ladder is the single biggest exam multiplier in this chapter.

3.1 The Three Conversion Pairs

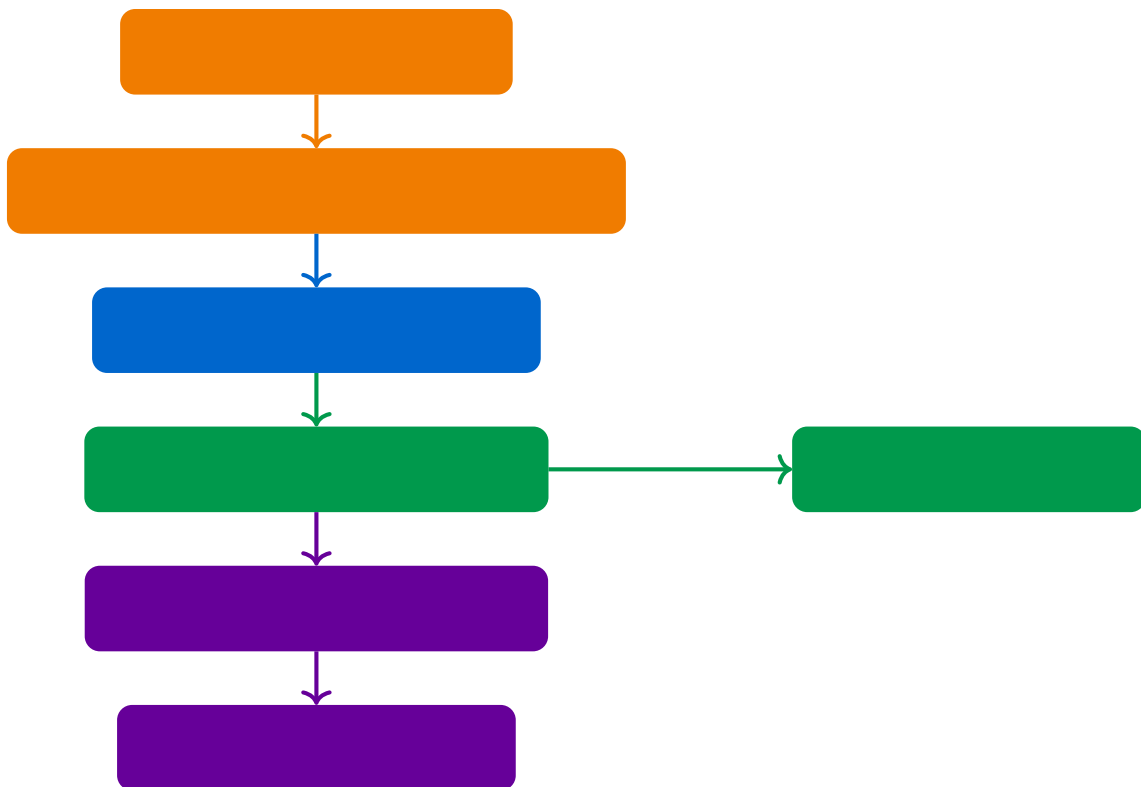
Three little switches that connect every aggregate

- (1) **Gross** $\Leftrightarrow$ **Net**: subtract or add **Depreciation** (also called Consumption of Fixed Capital).
- (2) **Market Price** $\Leftrightarrow$ **Factor Cost**: subtract or add **Net Indirect Taxes** (NIT = Indirect Taxes – Subsidies).
- (3) **Domestic** $\Leftrightarrow$ **National**: subtract or add **NFIA** (Net Factor Income from Abroad).

NFIA explained

NFIA = Factor income earned by residents from the Rest of the World – Factor income paid to non-residents working in the domestic territory. For India, NFIA is usually negative (we pay out more than we receive) but can be positive in remittance-heavy years.

3.2 The Full Chain (every Class 12 boards numerical lives here)



3.3 Algebraic Chain Spelled Out

Every step from GDP_{MP} down to PDI

- $GDP_{MP} - \text{Depreciation} \Rightarrow NDP_{MP}$
- $NDP_{MP} - \text{NIT} \Rightarrow NDP_{FC}$
- $NDP_{FC} + \text{NFIA} \Rightarrow \text{NNP}_{FC} \equiv \text{National Income (NI)}$
- $\text{NI} - \text{UCP} - \text{Corporate Tax} + \text{Transfer Payments} \Rightarrow \text{Personal Income (PI)}$
- $\text{PI} - \text{Direct Tax} \Rightarrow \text{Personal Disposable Income (PDI)}$

where UCP = Undistributed Profits of Corporations, NIT = Net Indirect Taxes, NFIA = Net Factor Income from Abroad.

3.4 Worked Numerical 4 (Aggregate Chain)

Given (Rs. crore): $GDP_{MP} = 12,000$; Depreciation = 800; Net Indirect Taxes = 900; NFIA = -120; Undistributed Profits = 250; Corporate Tax = 350; Transfer Payments to Households = 200; Personal Direct Taxes = 400. Compute PI and PDI.

Step 1. $NDP_{MP} = 12000 - 800 = 11,200$.

Step 2. $NDP_{FC} = 11200 - 900 = 10,300$.

Step 3. $\text{NNP}_{FC} \text{ (NI)} = 10300 + (-120) = \text{Rs. } 10,180 \text{ crore}$.

Step 4. $\text{PI} = \text{NI} - \text{UCP} - \text{CT} + \text{TP} = 10180 - 250 - 350 + 200 = \text{Rs. } 9,780 \text{ crore}$.

Step 5. $PDI = PI - \text{Direct Tax} = 9780 - 400 = \text{Rs. } 9,380 \text{ crore.}$

Remember the conversions: "DNF"-flip

D for Depreciation flips Gross $\leftrightarrow$ Net.

N for Net Indirect Taxes flips MP $\leftrightarrow$ FC.

F for NFIA flips Domestic $\leftrightarrow$ National.

Whichever direction the exam wants, apply DNF in the correct order.

4 Real GDP, Nominal GDP and the GDP Deflator

A country can “grow” simply because prices rose, with no extra goods produced. To separate genuine output growth from inflation, economists distinguish between Nominal GDP (today’s rupees, today’s prices) and Real GDP (today’s quantities, a base year’s prices). The ratio of the two is the GDP Deflator, the broadest price index of an economy.

4.1 Definitions

Nominal, Real and Deflator

Nominal GDP = Output of the current year valued at *current-year* prices.

Real GDP = Output of the current year valued at *base-year* prices.

$$\text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

Why Real GDP is the welfare-relevant number

Only Real GDP captures whether an economy is genuinely producing more goods. A 10% rise in Nominal GDP with 10% inflation is zero real growth. Policy-makers quote Real GDP growth for exactly this reason.

4.2 Worked Numerical 5 (Deflator)

An economy produces only two goods, rice and shirts. Quantities and prices are:

Good	Base Year 2020-21		Current Year 2025-26	
	Quantity	Price (Rs.)	Quantity	Price (Rs.)
Rice (kg)	100	40	130	60
Shirts (units)	20	300	28	450

Step 1 – Nominal GDP (2025-26):

$$= (130 \times 60) + (28 \times 450) = 7800 + 12600 = \text{Rs. } 20,400.$$

Step 2 – Real GDP (2025-26 at base-year prices):

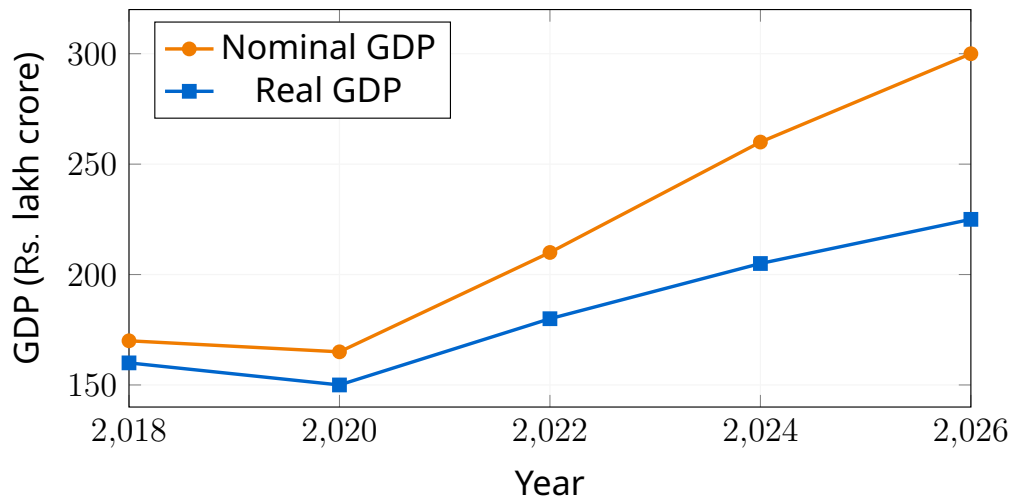
$$= (130 \times 40) + (28 \times 300) = 5200 + 8400 = \text{Rs. } 13,600.$$

Step 3 – GDP Deflator:

$$= \frac{20400}{13600} \times 100 = 150.$$

Interpretation: prices, on average, rose by 50% between the base year and the current year.

4.3 Visualising Real vs Nominal Growth

**Deflator > 100 means inflation**

If the GDP deflator is greater than 100, the price level has risen since the base year. If it is below 100, prices have fallen (deflation). The deflator in the base year is by construction equal to 100.

How India publishes its growth number

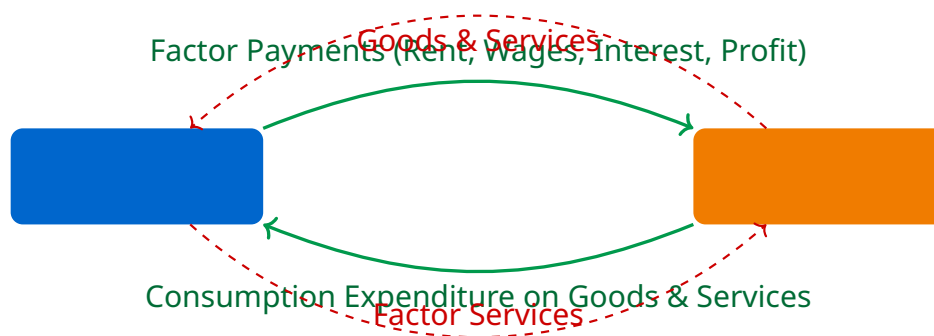
The MoSPI announces “real GDP growth” every quarter using a 2011-12 base year. The widely quoted “7% growth” is real, not nominal. Nominal GDP is the one that crosses headline thresholds (“5 trillion dollar economy”).

5 Circular Flow of Income

The Circular Flow shows how money keeps moving inside an economy: households supply factors and receive incomes, firms produce goods and earn sales revenue, and the loop closes. We progressively add more participants (government, then the rest of the world) to move from a two-sector to a four-sector model, the foundation for the National Income identity.

5.1 Two-Sector Model (Households ⇌ Firms)

In the simplest economy, households own all factors. They supply land, labour, capital and entrepreneurship to firms in the **factor market**, and they receive rent, wages, interest and profit. With those incomes, they buy goods and services from firms in the **product market**. Money flows clockwise; goods and factor services flow counter-clockwise.



5.2 Three-Sector Model (add Government)

The government collects **taxes** from households and firms and injects **government expenditure** (purchases, subsidies, transfer payments) back. Taxes are a leakage; government spending is an injection. The economy reaches equilibrium when total leakages equal total injections.

5.3 Four-Sector Model (add Rest of the World)

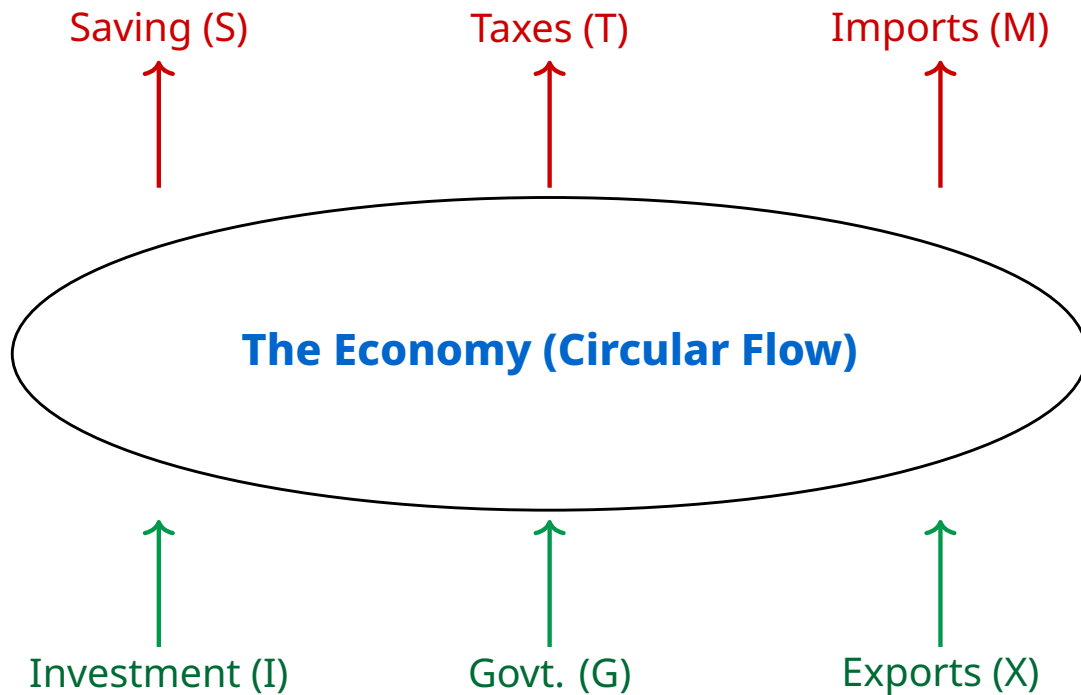
The fourth participant is the foreign sector. Exports inject foreign currency; imports leak it out. We now have three leakages (Saving, Tax, Imports) and three injections (Investment, Government Expenditure, Exports).

Leakages and Injections in the four-sector economy

Leakages: S (Savings) + T (Taxes) + M (Imports).

Injections: I (Investment) + G (Govt. Expenditure) + X (Exports).

Equilibrium identity: $S + T + M = I + G + X$.



In equilibrium, total leakages = total injections

Why circular flow matters for measurement

Circular flow is the visual proof that the three measurement methods give the same number: the value of output (Product method), the income paid to factors (Income method), and the expenditure on the output (Expenditure method) are three sides of the same loop.

Identify the model by counting players

If a question mentions only households and firms, it is a 2-sector model. Add "Government" or "Taxes" and it is 3-sector. Add "Exports" or "Foreign" and it is 4-sector. CBSE explicitly tests this classification.

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6 Limitations of GDP as a Welfare Indicator

GDP is the single most quoted economic statistic, but it is far from a perfect measure of well-being. The NCERT chapter ends on this nuance, and CBSE has asked at least one 4-mark or 6-mark question from this section almost every year. Five major limitations are routinely listed.

6.1 The Five Standard Limitations

Why GDP is not the same as welfare

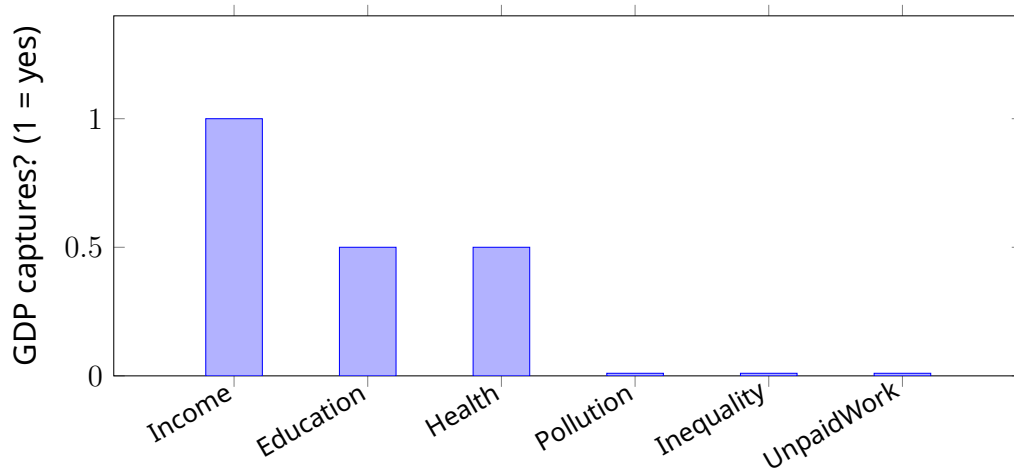
- (1) **Distribution of Income.** GDP says nothing about how income is shared. A country whose GDP doubles but whose top 10% takes all of the gain has not raised the median household's welfare.
- (2) **Non-Monetary Exchanges.** Household chores, kitchen gardens, barter and informal-sector activity are not captured in GDP. India's official GDP under-counts huge swathes of the rural economy.
- (3) **Externalities.** Pollution caused by a factory is not subtracted from its contribution to GDP. A polluting industry can lift GDP while reducing welfare.
- (4) **Composition of Output.** A GDP rise driven by defence spending and luxury cars is qualitatively different from one driven by education and primary healthcare, even if the rupee total is identical.
- (5) **Quality and Variety.** A new smartphone with the same price as last year's model gives more utility, but GDP cannot capture quality improvements in a fully consistent way.

6.2 Beyond GDP: alternative welfare measures

Index	What it adds beyond GDP
HDI (UNDP)	Combines income, education and life expectancy.
Gross National Happiness (Bhutan)	Subjective wellbeing, cultural diversity, ecological resilience.
Green GDP	Subtracts environmental damage from conventional GDP.
Genuine Progress Indicator	Adds unpaid work, subtracts income inequality.

Bhutan's Gross National Happiness

Bhutan officially uses Gross National Happiness (GNH) as the headline indicator of progress instead of GDP. The GNH index combines nine domains including psychological wellbeing, time use, cultural diversity, ecological diversity and good governance.



GDP captures market income well but ignores environmental and distributional welfare.

“GDP per capita” is not the same as “welfare per capita”

Even GDP per capita ignores distribution, externalities and unpaid work. A boards-level answer must say “higher GDP per capita is necessary but not sufficient for higher welfare”.

7 The Savings-Investment Identity

In macroeconomic equilibrium, planned saving must equal planned investment. This identity is sometimes called the **three-balance identity** because it links the private sector, the government and the foreign sector. It is the bridge between Chapter 1 (measurement) and Chapter 5 (Balance of Payments).

7.1 Derivation of $(I - S) + (G - T) + (X - M) = 0$

In a four-sector economy:

$$Y = C + I + G + (X - M).$$

The same income is either consumed, saved, or taxed:

$$Y = C + S + T.$$

Setting the two equal and simplifying:

$$\begin{aligned} C + I + G + (X - M) &= C + S + T \\ \implies I + G + (X - M) &= S + T \\ \implies (I - S) + (G - T) + (X - M) &= 0 \end{aligned}$$

Three-balance identity, interpreted

Private sector balance $= (S - I)$ = net financial saving of households and firms.

Government balance $= (T - G)$ = budget surplus (or – deficit).

Foreign sector balance $= (M - X)$ = current account deficit.

The three balances must sum to zero. *Twin deficits* (govt + foreign) are funded by private surplus.

7.2 Worked Numerical 6 (Savings-Investment)

In a hypothetical economy (Rs. crore): $S = 1,200$; $I = 1,050$; $T = 950$; $G = 1,100$; $X = 400$; $M = 500$. Verify the three-balance identity.

$$\begin{aligned} (I - S) &= 1050 - 1200 = -150 \\ (G - T) &= 1100 - 950 = +150 \\ (X - M) &= 400 - 500 = -100 \end{aligned}$$

$$\text{Sum} = -150 + 150 + (-100) = -100.$$

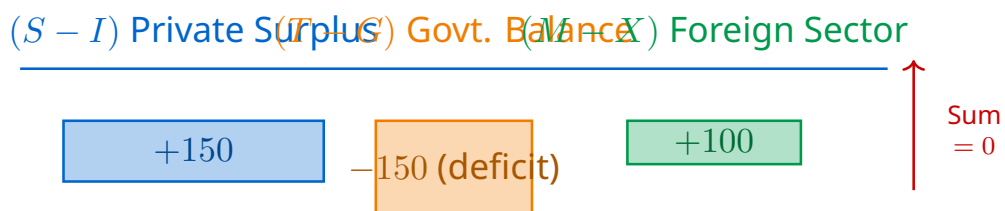
There is a residual of -100 , which means the data are inconsistent. In CBSE numericals the residual should always be zero; if it is not, the candidate must rework rather than blindly accept the data.

Use the identity as a checking tool

Any numerical that gives you Saving, Investment, Tax, Govt. expenditure, Exports and Imports can be verified by checking that $(I - S) + (G - T) + (X - M) = 0$. A residual indicates a transcription error.

India's twin deficits in 2012-13

In 2012-13 India ran a fiscal deficit of about 4.9% of GDP and a current account deficit of about 4.8% of GDP, financed entirely by private-sector saving and foreign capital inflows. The identity held, but the dependence on foreign capital triggered the "Taper Tantrum" currency crisis later that year.

7.3 Visualising the three balances

8 Common Mistakes and Formula Reference

This section consolidates the traps that cost the most marks in board exams, followed by a one-glance formula sheet. Use it as a final-day cheat page.

8.1 Top Pitfalls Across the Three Methods

Pitfalls students fall into most

- Counting **self-consumed produce** (a farmer eating his own wheat) as zero. NCERT explicitly says to impute its market value into GDP.
- Treating **owner-occupied housing** as outside GDP. The imputed rental of self-occupied housing IS added to GDP.
- Treating **transfer payments** (old-age pensions, scholarships) as part of GDP. They are not, because no good or service is produced in return.
- Treating **purely financial transactions** (buying shares, second-hand goods) as part of GDP. They merely transfer existing assets, not new production.
- Including **illegal/black economy** in GDP. It is by construction excluded.
- Mixing up **Indirect Taxes** (added when going FC → MP) with **Direct Taxes** (only subtracted when going PI → PDI).

8.2 Items that ARE included vs NOT included in GDP

Included in GDP	NOT included in GDP
Imputed rent of owner-occupied housing	Sale of second-hand goods (only commission, if any)
Production for self-consumption (farmer's wheat)	Transfer payments (old-age pension, scholarship)
Government spending on goods and services	Purely financial transactions (bonds, shares)
Free services produced by paid government employees	Unpaid household work (cooking, child care at home)
Change in stocks (inventory build-up)	Illegal economy and smuggling

8.3 Formula Sheet (one glance, all chapters)

Class 12 National Income Formula Reference

Conversions:

$$\text{GDP}_{MP} - \text{Depreciation} = \text{NDP}_{MP}$$

$$\text{NDP}_{MP} - \text{NIT} = \text{NDP}_{FC}$$

$$\text{NDP}_{FC} + \text{NFIA} = \text{NNP}_{FC} \text{ (National Income)}$$

Three Methods:

Product: $\text{GDP}_{MP} = \sum \text{GVA}_{MP}$, where $\text{GVA} = \text{Output} - \text{Intermediate Consumption}$

Income: $\text{NDP}_{FC} = \text{Compensation of Employees} + \text{Operating Surplus} + \text{Mixed Income}$

$$\text{Expenditure: } \text{GDP}_{MP} = C + I + G + (X - M)$$

Personal: $\text{PI} = \text{NI} - \text{UCP} - \text{Corporate Tax} + \text{Transfer Payments to Households}$

$$\text{PDI} = \text{PI} - \text{Direct Tax}$$

$$\text{Deflator: } \text{GDP Deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

$$\text{Identity: } (I - S) + (G - T) + (X - M) = 0$$

8.4 Mnemonic catalogue

Three quick recall hooks

(a) Methods: "PIE" $\Rightarrow$ **P**roduct, **I**ncome, **E**xpenditure.

(b) Aggregates: "GND" $\Rightarrow$ **G**ross or **N**et (Depreciation), **NIT** (MP $\leftrightarrow$ FC), **D**omestic or **N**ational (NFIA).

(c) Leakages: "STM" (Saving, Tax, iMports) = Injections "IGX" (Investment, Govt., eXports).

9 Past Year Question (PYQ) Trend and Quick Recall

CBSE has tested this chapter every single year. The pattern below summarises the last six board cycles to help focus revision on the highest-yield items.

9.1 Trend at a glance (CBSE Class 12)

Year	Topic	Question Type	Marks	Difficulty
2019	Value Added Method numerical	6-mark long answer	6	Medium
2020	Expenditure Method ($Y = C+I+G+NX$)	6-mark long answer	6	Medium
2021	Real vs Nominal GDP, Deflator	4-mark short answer	4	Easy
2022	PI from NI (aggregate chain)	4-mark short answer	4	Medium
2023	Limitations of GDP as welfare measure	4-mark theory	4	Easy
2024	Income Method numerical	6-mark long answer	6	Hard
2025	Mixed: Stocks vs Flows MCQ + Deflator numerical	1+4	5	Medium

9.2 Patterns we can spot

- One **6-mark numerical** from Product / Income / Expenditure method is a near-certainty every year.
- One **4-mark theory** on Limitations of GDP appears every 2-3 years.
- One **short numerical or MCQ** on Real-Nominal-Deflator or PI/PDI conversion appears every year.
- MCQ-level questions on stocks vs flows, transfer payments, and second-hand sales have been increasing under the new pattern.

Final-week revision priorities

1. Drill all three method numerical templates (Worked 1, 2, 3 above).
2. Memorise the DNF conversion ladder (Section 4).
3. Be able to write 5 limitations of GDP in two sentences each (Section 7).
4. Practise one savings-investment identity verification per day.

How the Indian CSO actually computes GDP today

Since 2015, India uses the 2011-12 base year and gross value added (GVA) at basic prices as the principal measure, then converts to GDP_{MP} by adding

product taxes net of subsidies. The Class 12 textbook still teaches the older Factor-Cost approach, which is fine for boards but slightly behind the official series.

9.3 One-page revision sheet

15-second recall card

- Four factors → four rewards (rent, wages, interest, profit).
- Three methods = Product, Income, Expenditure.
- Three conversions = Depreciation, NIT, NFIA.
- Three balances = $(I - S) + (G - T) + (X - M) = 0$.
- GDP Deflator = $\text{Nominal} / \text{Real} \times 100$.
- National Income = NNP_{FC} .
- $\text{PDI} = \text{PI} - \text{Direct Tax}$.
- GDP measures output, not welfare.

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- [NCERT Solutions](#)
- [NCERT Book PDF](#)
- [Handwritten Notes](#)

Continue learning:

- [Ch 2: Money and Banking](#)
- [Class 12 Economics - All Chapters](#)