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Effect of GDP with respect to the Nominal and Real GDP of India: 2014-‘15

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Abstrac

Indian economy is likely to grow in the range of 5.4 to 5.9 per cent in 2014-15 overcoming the sub-5 per cent GDP growth of past two years, even as poor monsoon and disturbed external environment remain a cause for concern, says the Economic Survey.

Survey says that with the global economy expected to recover moderately, particularly on account of performance in some advanced economies, the economy can look forward to better growth prospects in 2014-15 and beyond. After recovering in 2009-10 and 2010-11, GDP growth slowed down to decade's low of 4.5 per cent in 2012-13. It picked up marginally to 4.7 per cent in 2013-14. The survey further said the measures taken by the government to improve investment climate and improve governance could push up growth to 7-8 per cent in the coming years. The survey also made a case for repealing of archaic laws governing market access, expansion and entry/exit of firms and restore of the dispute resolution mechanism for commercial disputes to lend greater predictability to policy, giving boost to physical infrastructure and improving productivity in agriculture. The main aim of this paper is to analyse the effect of real and nominal GDP and to see the performance of GDP in past years and also to find out effect on economy by changing the real and nominal GDP and to see sectors wise GDP performance.

Key words: GDP (Gross Domestic Product), Economy, Governance, Investment

Efecto del PIB con respecto al PIB nominal y real de la India: 2014-‘15

Resumen

Es probable que la economía india crezca en el rango de 5.4 a 5.9 por ciento en 2014-15 superando el crecimiento del PIB de menos del 5 por ciento de los últimos dos años, incluso cuando los pobres monzones y el entorno externo perturbado siguen siendo motivo de preocupación, dice el diario Económico. Encuesta.

La encuesta dice que, dado que se espera que la economía global se recupere moderadamente, particularmente debido al desempeño en algunas economías avanzadas, la economía puede esperar mejores perspectivas de crecimiento en 2014-15 y más allá. Después de recuperarse en 2009-10 y 2010-11, el crecimiento del PIB se desaceleró al mínimo de la década del 4,5 por ciento en 2012-13. Se incrementó marginalmente a 4.7 por ciento en 2013-14. La encuesta también dijo que las medidas tomadas por el gobierno para mejorar el clima de inversión y mejorar la gobernanza podrían impulsar el crecimiento al 7-8 por ciento en los próximos años. La encuesta también abogó por la derogación de las leyes arcaicas que rigen el acceso al mercado, la expansión y la entrada / salida de las empresas y la restauración del mecanismo de resolución de disputas para disputas comerciales para otorgar una mayor previsibilidad a la política, impulsar la infraestructura física y mejorar la productividad en la agricultura. El objetivo principal de este documento es analizar el efecto del PIB real y nominal y ver el rendimiento del PIB en los últimos años y también descubrir el efecto en la economía cambiando el PIB real y nominal y ver el rendimiento del PIB sabio de los sectores.

Palabras clave: PIB (Producto Interno Bruto), Economía, Gobernanza, Inversión

Executive Summary

The economy can look forward to better growth prospects in 2014-15 and beyond. After recovering in 2009-10 and 2010-11, GDP growth slowed down to decade's low of 4.5 per cent in 2012-13. It picked up marginally to 4.7 per cent in 2013-14. The survey further said the measures taken by the government to improve investment climate and improve governance could push up

growth to 7-8 per cent in the coming years.

The concept of GDP was first developed by Simon Kuznets for a US Congress report in 1934. In this report, Kuznets warned against its use as a measure of welfare. After the Bretton Woods conference in 1944, GDP became the main tool for measuring a country's economy. At that time Gross National Product (GNP) was the preferred estimate, which differed from GDP in that it measured production by a country's citizens at home and abroad rather than its 'resident institutional units'. The switch to GDP was in the 1980s.

Nominal GDP measures the value of output during a given year using the prices prevailing during that year. Over time, the general level of prices tends to rise due to inflation (but may also fall, due to deflation), leading to an increase (or decrease) in nominal GDP even if the volume of goods and services produced is unchanged.

Real GDP measures the value of output in two or more different years by valuing the goods and services adjusted for inflation. For example, if both the "nominal GDP" and price level doubled between 1995 and 2005, the "real GDP" would remain the same. For year over year GDP growth, "real GDP" is usually used as it gives a more accurate view of the economy. Real GDP is calculated using constant prices whereas nominal GDP uses current prices. The difference between the nominal GDP and real GDP is due to the inflation rate in market.

India shares 8.00% of total Asia's GDP (nominal). On the basis of PPP, economy of India stands at 7,375.9 billion international dollar, 3rd largest economy of the world after United States and China. India contributes 6.83% of total world's GDP (ppp). India shares 15.44% of total Asia's GDP (PPP). Gross domestic product (GDP) of India at purchasing power parity (PPP) is 3.6 times more than GDP at nominal.

Introduction

The concept of GDP was first developed by Simon Kuznets for a US Congress report in 1934. In this report, Kuznets warned against its use as a measure of welfare. After the Bretton Woods conference in 1944, GDP became the main tool for measuring a country's economy. At that time Gross National Product (GNP) was the preferred estimate, which differed from GDP in that it measured production by a country's citizens at home and abroad rather than its 'resident institutional units'. The switch to GDP was in the 1980s.

The history of the concept of GDP should be distinguished from the history of changes in ways of estimating it. The value added by firms is relatively easy to calculate from their accounts, but the value added by the public sector, by finan

cial industries, and by intangible asset creation is more complex. These activities are increasingly important in developed economies, and the international conventions governing their estimation and their inclusion or exclusion in GDP regularly change in an attempt to keep up with industrial advances. In the words of one academic economist "The actual number for GDP is therefore the product of a vast patchwork of statistics and a complicated set of processes carried out on the raw data to fit them to the conceptual framework."

GDP is defined as the total value of all goods and services produced within that territory during a given year. GDP is designed to measure the market value of production that flows through the economy. GDP differs from Gross National Product (GNP), in excluding inter-country income transfers, in effect attributing to a territory the product generated within it rather than the incomes received in it. Essentially, $GNP = GDP + NFP$.

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Literature review

The export sector plays a significant role in the domestic economy by contributing close to 25 percent to India's GDP (in 2009), its contribution to world exports continues to remain minimal, at a mere 1.5 percent of world exports in 2009 (however, this share has improved since the economic reforms of 1991). Between 1991 and 2009, India's share in world exports rose from 0.56 to 1.52 percent. But overall, the economic reforms implemented in India did not have a significant impact on India's position in the world export market, unlike the reforms implemented in countries like China, South Korea or Taiwan.

Thirlwell (2006) states that India has followed a different path. Following the economic reforms in 1991, the Indian economy made a transition from being agriculture-driven to being considerably service oriented. The manufacturing sector, which had been the prime engine of growth for countries such as China or South Korea, was not as strengthened in India and its development was constrained by a combination of factors. As a consequence of this, the Indian economy

was not able to fully exploit its potential comparative advantage in the sector. Friedman's (1977) Nobel Lecture the theoretical and empirical research on the relationship between inflation and output growth has progressed along two distinct lines. The first line of research starting with hypothesis that higher nominal inflation raises inflation uncertainty, has tended to investigate the relationships among inflation, inflation uncertainty, growth and growth uncertainty. The second line of research has tended to remain within the traditional macroeconomics and investigate the relation between inflation and growth without reference to inflation uncertainty and growth uncertainty.

Researchers belonging to the second camp base their arguments on the Real Business Cycle theories and assert that inflation negatively affects growth. One of the main studies investigating this negative relationship between inflation and growth has been carried out by Kydland and Prescott (1990). These authors argue that supply shocks, not demand shocks, are responsible for the inverse relationship. Supply shocks render the prices countercyclical, while demand shocks because pro-cyclical moves in prices towards output. However, there is a condition to be taken into account: Price flexibility. In an environment with sticky prices, a demand shock will increase the output while prices move very little. As output is on the way towards its trend, prices may be rising. Hence, a negative correlation between these variables can also be observed even when a demand shock is responsible for these movements. Ball and Mankiw (1994) and Judd and Trehan (1995) study these effects. In addition, Den Haan and Wouter (2000), by using long forecast horizons within a VAR framework, argues that a negative correlation between inflation and growth exists.

Objectives of study

- To find out effect of real GDP on Nominal GDP
- To find out GDP by various sectors
- To find out economic effect by changing Real and nominal GDP
- To see the performance of GDP in past years.

1. To find out effect of real GDP on Nominal GDP

Real GDP vs. Nominal GDP

When discussing the economy wide concept of Gross Domestic Product (GDP) you will often see reference to real GDP and nominal GDP. Understanding the difference between these two is important as they reflect different factors and comparing them directly, say one country nominal GDP and another's real GDP, would provide little value. This article will help you clearly differentiate between the two and understand what's meant by real GDP vs. nominal GDP.

Nominal GDP

When referring to simply GDP most often what is being discussed is the nominal GDP of a country. GDP is an estimate of the total value of a country's production and services, calculated over a one year time period. It is typically calculated as:

$$\text{GDP} = \text{Consumption} + \text{Investment} + \text{Government Spending} + (\text{Exports} - \text{Imports})$$

It is always important to look at the actual methodology used though as often different institutions or organizations may utilize modified versions to arrive at what they consider GDP. As GDP is built on estimate after estimate it is a very rough approximation of a countries productive power, and omits many things like the 'grey' or outright illegal economy. In some countries this is a minor omission but in others it can significantly impact the total GDP.

For comparative purposes, the per capita GDP is also commonly calculated, dividing GDP by the population, to see what the comparative value of production is for every individual. This is important because in extreme examples where based on nominal GDP India ranked 10th in global GDP at \$1.87 trillion and Canada ranked 11th at \$1.72 trillion. However when you look at GDP per capita Canada ranks 10th at \$52K and India ranks 142nd at \$1.5K, a stark difference because of India having 34 times as many people as Canada.

Real GDP

Real GDP provides further insight in that it adjusts nominal GDP for the impact of inflation over a set time period. To calculate real GDP a 'base year' is chosen and then inflation from that year forward will be considered to determine the actual growth in GDP after adjusting for inflation. This is important to consider because in pure dollar numbers GDP will almost always be increasing, but when you consider inflation a lot of that growth will be taken away.

This reflects the true 'purchasing power' or value of GDP (compared to the base year) and the impact varies from country to country as inflation rates can be very different. If for example a country has 10% GDP growth but 9% inflation, their real growth is only about 1% while the rest is due to factors like more money being printed. Comparatively a country could have 6% for GDP growth but only 2% inflation, so their actual growth was 4%. Real GDP rates will be lower than nominal GDP for any countries experiencing inflation, which is the vast majority of countries, and for many analysts is a far more useful number in terms of correctly reflecting a countries growth in value.

To find out GDP by various sectors

[Table: 1]

No	Sectors	Year 2013-14		Year 2014-15	
		Rupees (In Cr.)	% share	Rupees (In Cr.)	% share
1	Agriculture sectors	1,881,152	17.95%	1,964,506	17.01%
2	Industry sectors	3,219,942	30.73%	3,466,996	30.02%
3	Services Sectors	5,376,045	51.31%	6,118,738	52.97%

From the above Table-1 we can analyse in the services sectors its 51.31% in the year 2013-14 and in the year 2014-15 its increased to 52.97% that is almost 53% and in compare to all the sectors services sectors are has more GDP contribution and in the agriculture sectors its very low in compare to all other sectors. And moderate in the industrial sectors.

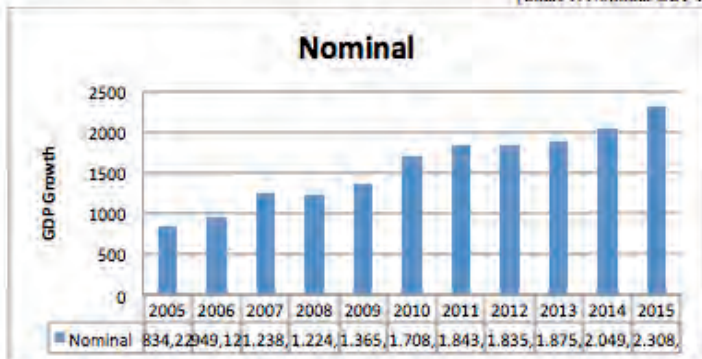
2. To find out economic effect by changing Real and nominal GDP
 Real GDP or Gross Domestic Product (GDP) at constant (2011-12) prices in the year 2014-15 is estimated at 106.44 lakh crore INR, showing a growth rate of 7.3 percent over the GDP for the year 2013-14 of 99.21 lakh crore. Nominal GDP or GDP at current prices in the year 2014-15 is estimated at Rs. 125.41 lakh crore, with growth rate of 10.5 percent against Rs. 113.45 lakh crore for 2013-14. The Gross National Income (GNI) at 2011 -12 prices is estimated at 105.13 lakh crore. At current prices, this figure is 123.84 lakh crore rupees. In earlier estimates released on 9th February 2015, GDP at constant and current prices was 106.57 and 126.54 lakh crore INR, respectively.

The Ministry of Statistics & Programme Implementation has released the new series of national accounts, revising the base year from 2004-05 to 2011-12. GDP for the base year 2011-12 is estimated at 88.32 lakh crore Indian rupees. According to International Monetary Fund World Economic Outlook (April-2015), GDP (nominal) of India in 2014 at current prices is \$2,049.5 billion. India contributes 2.65% of total world's GDP in exchange rate basis. India shares 17.5 percent of the total world population and 2.4 percent of the world surface area. India is now 9th largest economy of the world. India is at 3rd position after China and Japan among Asian Countries. India shares 8.00% of total Asia's GDP (nominal). On the basis of PPP, economy of India stands at 7,375.9 billion international dollar, 3rd largest economy of the world after United States and China. India contributes 6.83% of total world's GDP (ppp). India shares 15.44% of total Asia's GDP (PPP). Gross domestic product (GDP) of India at purchasing power parity (PPP) is 3.6 times more than GDP at nominal.

It is projected that in 2015, India will become 7th largest economy of the world with GDP (Nominal) of \$2,308. At 2004-05 prices, Economy of India has expanded by 1.93 times in past 10 years and 20.53 times since 1950-51. At current prices, Economy of India has expanded by 3.52 times in past 10 years.

3. To see the performance of GDP in past years

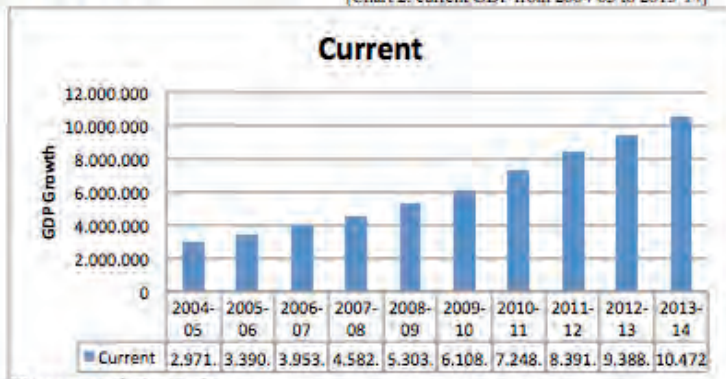
[Chart 1: Nominal GDP from 2005 to 2015]



[Source:

statistic time]

[Chart 2: current GDP from 2004-05 to 2013-14]



[Source: statistic time]

From the above chart researcher can analyse that in the year 2005 nominal GDP growth rate is very low and it's increased year to year still year 2015 and in the year 2011 to 2013 it's somehow stable and again increased in the year 2014 and 2015. Researcher can analyse that from the selected period in the year 2015 highest nominal GDP rate is recorded

And also same trend in the current GDP growth that is in the low in the year

2004-05 and high in the year 2013-14 and researcher can also see that the trend is also up from the starting to the end of selected area.

Conclusion

From the above data researcher can conclude that in the past year the effect on GDP is more fluctuated in various sectors wise and in term of growth of the GDP constraint. Both real GDP and nominal GDP have their own impact on the economy. In term of nominal GDP India ranked 142nd at \$1.5K. And Real GDP rates will be lower than nominal GDP for any countries experiencing inflation, which is the vast majority of countries, and for many analysts is a far more useful number in terms of correctly reflecting a countries growth in value. If we are seeing next term that is sectors wise GDP growth, in that case we can also seen in the highest growth in services sectors in compare to others. Real GDP or Gross Domestic Product (GDP) at constant (2011-12) prices in the year 2014-15 is estimated at 106.44 lakh crore INR, showing a growth rate of 7.3 percent over the GDP for the year 2013-14 of 99.21 lakh crore. Nominal GDP or GDP at current prices in the year 2014-15 is estimated at Rs. 125.41 lakh crore, with growth rate of 10.5 percent against Rs. 113.45 lakh crore for 2013-14. . India shares 8.00% of total Asia's GDP (nominal). On the basis of PPP, economy of India stands at 7,375.9 billion international dollar, 3rd largest economy of the world after United States and China. India contributes 6.83% of total world's GDP (ppp). India shares 15.44% of total Asia's GDP (PPP). Gross domestic product (GDP) of India at purchasing power parity (PPP) is 3.6 times more than GDP at nominal.

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