1. Factors of Production

Factors of production are **resources used to produce goods and services**. There are four primary factors:

a) Land

- Includes all **natural resources**: soil, minerals, forests, water bodies.
- **Passive factor**; return is called **rent**.

b) Labour

- **Human effort**, physical or mental, used in production.
- **Active factor**; return is called **wages**.

c) Capital

- **Man-made resources** like machines, tools, infrastructure.
- Not money per se, but assets that aid production.
- Return is called **interest**.

d) Entrepreneurship

- The person or group that **organizes land, labour, and capital**.
- Takes **risk**, makes decisions, innovates.
- Return is called **profit**.

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2. Law of Demand and Supply

a) Law of Demand

> "Ceteris paribus (all else constant), when the **price of a good increases**, its **quantity demanded decreases** and vice versa."

- **Demand Curve**: Downward sloping.
- **Exceptions**: Giffen goods, Veblen goods (luxury items), necessity goods.

FACTORS AFFECTING DEMAND:

- Price of good
- Income of consumer
- Prices of substitutes and complements
- Tastes and preferences
- Future expectations

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b) Law of Supply

> "Ceteris paribus, when the **price of a good increases**, its **quantity supplied increases**."

- **Supply Curve**: Upward sloping.
- **Supply Schedule**: Table showing price-quantity relationship.

FACTORS AFFECTING SUPPLY:

- Price of the good
- Input costs
- Technology
- Government policy (taxes/subsidies)
- Producer expectations

Equilibrium Price

- The price at which **quantity demanded = quantity supplied**.
- Market clears; no shortage or surplus.

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3. National Income Accounting

Definition

- Measures the **total economic activity** in a country over a given period (usually 1 year).
- Helps gauge **economic performance**.

Key Aggregates:

Concept	Meaning	Includes
GDP (Gross Domestic Product)	Market value of final goods and services **produced within a country** in a year	Includes output by both residents and foreigners

Concept	Meaning	Includes
GNP (Gross National Product)	GDP + Net Factor Income from Abroad (NFIA)	Only **nationals' income**, regardless of location
NNP (Net National Product)	GNP – Depreciation	Accounts for **wear and tear** of capital
National Income (at factor cost)	NNP at factor cost	Excludes indirect taxes, includes subsidies
Personal Income	Income received by households	Includes transfer payments
Disposable Income	Personal income – direct taxes	Money available for spending/saving

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Methods of Calculating National Income:

1. PRODUCTION/OUTPUT METHOD

- Adds value added at each stage of production.

2. INCOME METHOD

- Adds incomes earned: wages, rent, interest, profits.

3. EXPENDITURE METHOD

- Adds total expenditure: C (consumption) + I (investment) + G (govt spending) + (X – M)

National Income = National Product = National Expenditure (theoretically equal)

4. Related Concepts

Inflation

- General rise in prices; measured via **CPI** or **WPI**.
- Types: **Demand-pull**, **Cost-push**.

Monetary Policy

- Controlled by **RBI**; involves **interest rates, money supply**.

Fiscal Policy

- Government revenue and expenditure.
- Tools: **Taxes**, **subsidies**, **public expenditure**.

5. GDP vs. HDI vs. GNP

Indicator	Focus	Criticism
GDP	Economic output	Ignores income distribution, environment
GNP	National income	Less relevant in globalized economies
HDI	Health, education, income	Composite and people-centric