

Answer on Question #44424 – Economics – Macroeconomics

Why is gdp calculated at nnp at factor cost?

Solution

One of the important concepts of national income and the method of its calculation is NNP calculated at factor cost.

Net National Product (NNP) at Factor Cost (National Income): NNP at factor cost or National Income is the sum of wages, rent, interest and profits paid to factors for their contribution to the production of goods and services in a year. It may be noted that:

$$\text{NNP at Factor Cost} = \text{NNP at Market Price} - \text{Indirect Taxes} + \text{Subsidies.}$$