

IIPA 2022

Polity

Short Answers

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Polity

Gross Value Added (GVA)

Gross value added (GVA) measures the entire value of goods and services produced in a given economy. The amount of value added to a product is considered. GVA is significant since it is used to **calculate GDP**, a vital indication of a country's overall economic health. It can also be used to determine the amount of value added (or lost) by a certain region, state, or province. This article will explain to you the concepts related to the **Gross Value Added (GVA)** which will be helpful in Indian Economy preparation for the IAS exam.

Gross Value Added (GVA)

- The contribution of a **corporate subsidiary**, company, or municipality to an economy, producer, sector, or region is measured by **gross value added (GVA)**, an economic productivity statistic.
- The difference between gross and net output is the GVA, which is the country's **output minus intermediate consumption**.
- GVA is significant because it is used to **adjust GDP**, which is a major indicator of a country's overall economic health.
- It can also be used to calculate how much a **product or service** has helped a firm meet its fixed costs.
- It is the **principal entry** on the revenue side of the nation's accounting balance sheet, and it reflects the supply side from an economic standpoint.
- GVA is the sum of a country's GDP and net of subsidies and taxes in the economy at the macro level, according to national accounting standards.

Gross Value Added = GDP + subsidies on products - taxes on products

- Previously, India measured GVA at '**factor cost**' until a new approach was implemented, with GVA at 'base prices' becoming the key indicator of economic output.
- Production taxes will be included in GVA at basic prices, while production subsidies will be excluded.
- GVA at factor cost did not include any **taxes or subsidies**.
- In addition, the base year has been changed from 2004-05 to 2011-12.
- The **National statistical office (NSO)** publishes estimates of GVA output on a quarterly and annual basis. It contains data on eight main types of commodities produced and services offered in the economy, as well as sectoral classification data.
- Agriculture, Forestry, and Fishing.
- Mining and Quarrying.
- Manufacturing.
- Electricity, Gas, Water Supply, and other Utility Services.
- Construction.
- Trade, Hotels, Transport, Communication, and Services related to Broadcasting.

- Financial, Real Estate, and Professional Services.
- Public Administration, Defence and other Services.

Importance

- **GVA** depicts the state of **economic activity** from the perspective of producers or supply, GDP depicts the state of economic activity from the perspective of consumers or demand.
- **GVA** is seen to be a more **accurate indicator of the economy**. Because a sudden increase in output can be attributed to higher tax collections, which could be due to better compliance or coverage, rather than the **genuine output situation, GDP fails** to measure the **true economic reality**.
- The GVA measure provides a sector-by-sector analysis, which helps policymakers determine which sectors require incentives or stimulation and create sector-specific policies accordingly.
- However, when it comes to cross-country comparisons and comparing the earnings of different countries, **GDP is a critical metric**.
- GVA is an **important and necessary** metric in measuring a country's economic success from the standpoint of global data standards and homogeneity.
- Any government that wants to attract foreign money and investment must follow international best practices in national income accounting.

Drawbacks

- The **sourcing of data and the accuracy** of the numerous data sources are critical to GVA accuracy.
- GVA, like any other metric, is vulnerable to flaws caused by the use of **ineffective or incorrect procedures**.

Conclusion

GVA is significant since it is factored into GDP, a vital indication of a country's overall economic health. It can also be used to determine how much value is added (or taken away) by a specific region, state, or province.