Net Domestic Product

After accounting for depreciation.

Depreciation

Depreciation = Loss in value of machinery, tools, buildings, etc., over time due to use or obsolescence

NDP filters that out to show **net new value** added to the economy.

Net

Total annual output after deducting capital depreciation.

> A small toy factory makes **toys worth ₱1,00,000** in a year.
> But during the year, its **machines got old and lost value** (depreciation) of **₱10,000**.
>
> **NDP = GDP – Depreciation**
> **NDP = ₱1,00,000 – ₱10,000 = ₱90,000**

GDP tells us the **total value** of production (gross).

NDP tells us the **actual value left** after removing **wear & tear** of capital.

So, **NDP is more realistic** if we want to know how much value the economy actually added **after accounting for capital loss**.

Factors of Production

Factor	What it Means	Example
1. Land	Natural resources used in production	Land, water, minerals, forests
2. Labour	Human effort (physical or mental)	Factory worker, teacher
3. Capital	Man-made tools and machines used to produce	Machines, tools, buildings
4. Entrepreneurship	The person who organizes land, labour & capital and takes risks	Business owner, startup founder

Domestic

Within a country's borders, regardless of who produces it.

> 📝 A **Japanese car company** makes **cars in India**. These cars are **included** in **India's GDP** — because they're made **inside India**, _even though the company is foreign._

But an **Indian engineer** working in **Germany** sends money home.

That money is **not included** in **India's GDP** — because it's **earned outside** India.

GDP counts location, not nationality.

Product

Only counts *final* goods and services, excluding raw materials to avoid double-counting.

Final Goods

A farmer sells **wheat** to a baker for **₱20**.
The baker uses the wheat to bake **bread** and sells it for **₱50** to a customer.

In GDP, we only count the **final bread worth ₱50**,
not ₱20 (wheat) + ₱50 (bread), because that would be double counting.

Final Services

A teacher gives private classes and earns **₱500**.
The full **₱500** is counted in GDP because it's the **final service** directly used by the student.

Net Domestic Product

Net Domestic Product (NDP) is the **Gross Domestic Product (GDP) minus depreciation**.

It measures the **actual net production** in the economy after accounting for the **wear and tear of capital goods** used during the production process.

📝 NDP = GDP – Depreciation

NDP Calculation

Let's look at a practical example of calculating Net Domestic Product:

Given Values

GDP (at Market Price) = ₹260 lakh crore

Depreciation = ₹10 lakh crore

Calculation

NDP = ₹260 – ₹10 = ₹250 lakh crore

NDP vs GDP: Key Differences

Feature	GDP	NDP
Includes depreciation	Yes	No
Reflects	Total production	Net production (after replacing worn-out capital)
Bigger or smaller	Always ⩾ **NDP**	Always ⩽ **GDP**
Usefulness	Macro economy size	Long-term productive capacity

Why Depreciation Matters

Accounting for depreciation provides a **more accurate picture of an economy's productive capacity:**
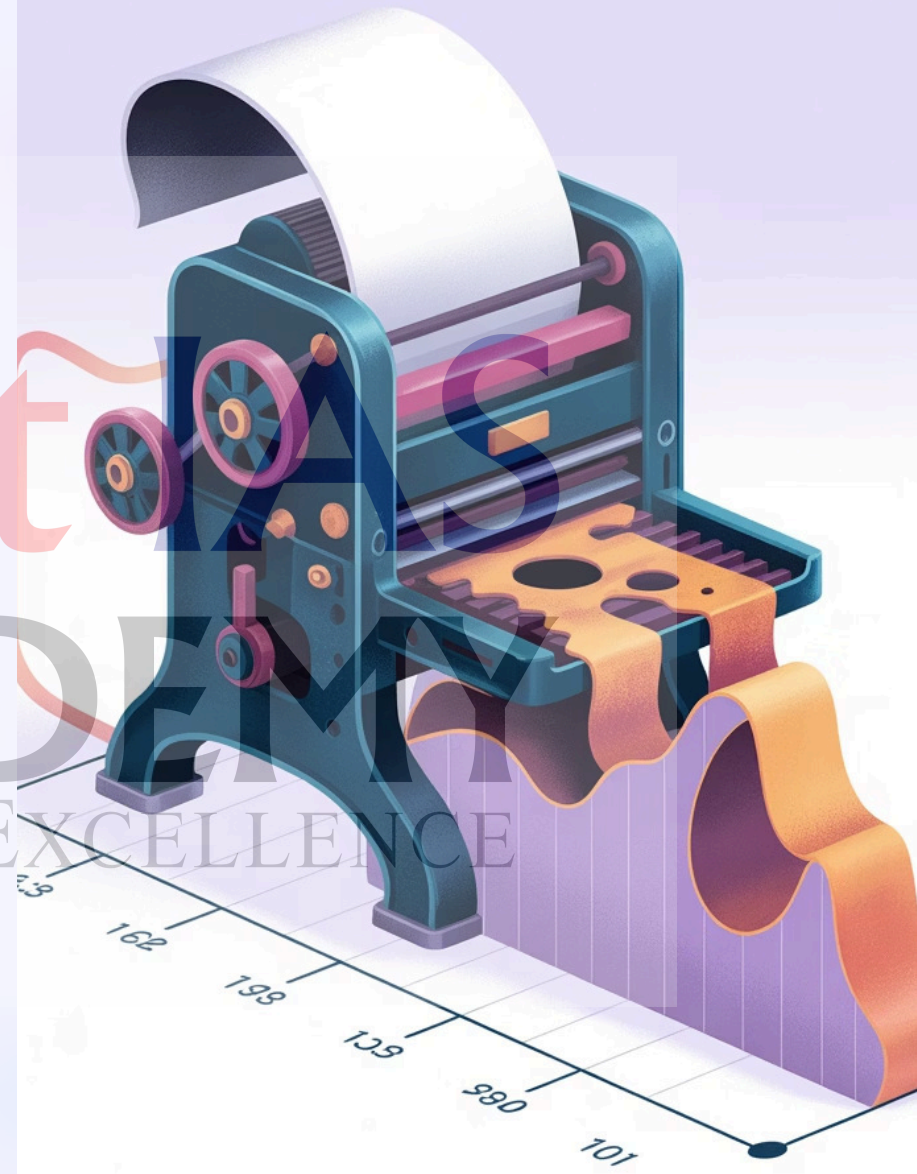
1. Capital Replacement

Some production just replaces old machines — not new growth.

ⓘ **Example:**
A toy factory earns ₽10 lakh this year.
But it uses ₽2 lakh **just to replace old machines**.
So only ₽8 lakh is truly adding new value.

Without subtracting depreciation, we might **overestimate** growth.

True Economic Growth

> NDP shows how much real, new value was added — after wear and tear

Example:
A country produces goods worth ₱1,00,000 (GDP).
But machines and tools lost ₱10,000 in value (depreciation).
So **NDP = ₱90,000**, which is the **real new value**.

This helps us **see the actual increase** in economic output.

Sustainable Production

If depreciation is rising but new production isn't, we may be overusing capital.

Example:

A farm buys expensive tractors every 2 years due to wear and tear. But crop production isn't increasing. This means the farm is **just replacing capital**, not growing.

Tracking depreciation helps **check if growth is sustainable** or just covering **losses of old assets**.

Practical Implications of NDP

More Accurate Growth Measurement

NDP provides a clearer picture of sustainable economic growth by accounting for **capital consumption**

Policy Planning

Helps policymakers understand if growth is coming from genuine value creation or just capital replacement

Investment Analysis

Gives investors insight into the true productive capacity of an economy

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