

SNA Basic Level: Lesson3- Institutional Sectors

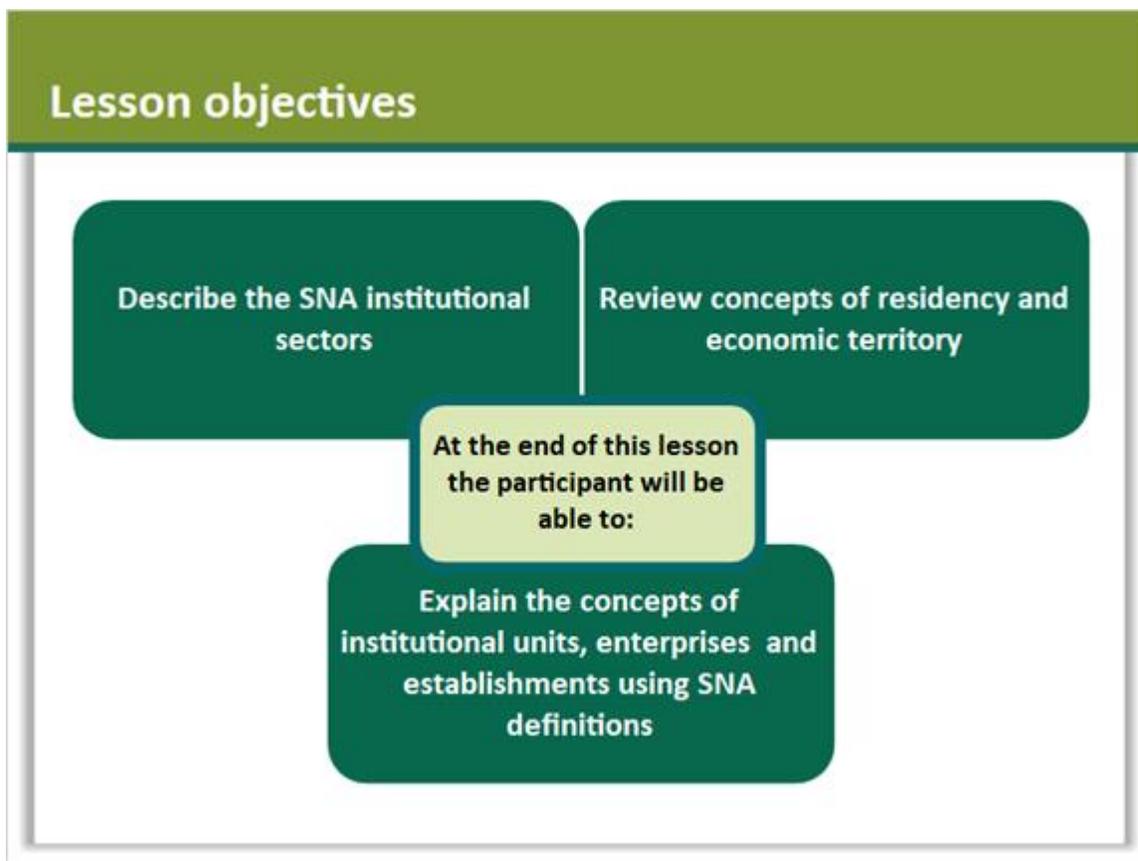
3.1 Institutional Sectors



Notes:

Welcome to the third lesson of the System of National Account Basic Course. This lesson presents Institutional Sectors.

3.2 Lesson objectives



Notes:

This lesson discusses the concepts of institutional units/sectors, enterprises and establishments. It also revisits the concepts of economic territory and residence.

3.3 Summary

Lesson 3 - summary



Part 1 – Domestic Economy



Part 2 – Institutional Units

Please click on the box to access the different parts of the lesson

Notes:

This lesson is divided into 2 different parts. You can directly access each section through the provided menu.

3.4 Domestic Economy



Notes:

This part discusses the concept of domestic economy

3.5 Domestic Economy and Residency

Domestic Economy and Residency

- Domestic economy distinguished from the rest of the world based on residency
- Currencies and nationalities do not play role in determining residency



Notes:

The concept of **economic territory** in the SNA, in its broadest sense, is the area under the effective economic control of a single government. Economic territory of a country refers to the geographic territory administered by the government of the country within which persons, goods, and capital can circulate freely. The economic territory of a country includes airspace, territorial waters, and continental shelf in international waters for which the country has exclusive rights; territorial enclaves (like embassies, consulates, military bases, scientific stations, and information or immigration office) located in other countries with political agreement with the host country. These are used by governments - either owned or rented them - for diplomatic, military, scientific, or other purposes with the formal agreement of governments of the territories where the land areas are physically located.

3.6 Domestic Economy and Residency

Domestic Economy and Residency

Borderline Issues on Residency



- Students
- Foreign workers and cross border workers
- Ownership of land/buildings
- Offshore Banks & Other Offshore Enterprises
- Construction companies
- Mobile equipment
- Supranational Bodies
International Organizations

Notes:

Military personnel and civil servants, including diplomats employed abroad by a country are treated as residents of the territory of the country that employs them. Students are residents of their country of origin, however long they study abroad. International organizations are not considered residents of any national economy, but their workers are residents of the economy in which they are expected to have their abode for at least one year. Owners of buildings and non-produced assets, such as land, sub-soil assets or legal constructs (leases etc.), even if they are not actually residents, a notional unit treated as residents of the economy is created for each of them, since such assets remain in the economy and serve the production activities of the economy. Transactions involving these are not treated as a part of exports or imports. Mobile equipment - aircrafts, ships, drilling rigs and platforms - if used in international waters or airspace, the activity is attributed to the country of the operator's residence. For non-financial corporations undertaking construction work abroad, the site offices (subsidiary unit) is treated as non-financial corporations of the country where the work is carried out. If there is no site office, the value of construction work is treated as import/export of service.

3.7 Domestic Economy and Residency



Notes:

An institutional unit (a household, an enterprise, a non-profit unit etc.) is treated as a resident unit of a country when it has centre of predominant economic interest in its economic territory. A unit is considered to have centre of predominant economic interest in an economic territory if it has a dwelling or a place of production activity for long or indefinite period of time, generally one year.

All resident units, including the ‘notional resident units’, constitute the domestic economy. To have a centre of predominant economic interest in a territory is to have ownership of land or ownership of structures or to engage in production in a territory for a long period of time (at least one year). The term ‘predominant’ was included in the 2008 SNA. For example, the notional residential unit created for a non-resident national having land & dwelling in the parent country is treated as the owner of those non-financial assets but having a financial liability of equivalent amount to the non-resident.

3.8 Institutional Units



Notes:

This part discusses the concept of institutional units

3.9 Economic Agents

Economic Agents



- Institutional Units, grouped into Sectors
- Establishments, grouped into Industries

Notes:

In most fields of statistics, the choice of statistical unit, and methodology used, are strongly influenced by the purposes for which the resulting statistics are to be used (SNA2008, 5.52). In the SNA the economic agents can be grouped into institutional sectors or industries based on establishments.

3.10 Institutional Unit

Institutional Unit

- An economic entity capable, in its own right, of
 - Owning goods or assets
 - Incurring liabilities
 - Taking economic decisions and engaging in economic activities ➔ Responsible legally
 - Transactions with other entities
- Either has a complete set of accounts or it is meaningful to compile, if required

Notes:

The theoretical framework used for measuring national income is built on the premise that all economic transactions take place only through institutional units. An institutional unit is defined as an economic entity that is capable of owning assets, incurring liabilities, carrying out economic activities taking decisions on all aspects of economic life and engaging in transactions with other entities.

3.11 Institutional Unit



Institutional Unit

Types of Institutional Units

- Households
- Legal or social entities separate from their owners.

Notes:

Institutional units basis for all accounts (except for production and generation of income accounts). These units are grouped into entities known as institutional sectors.

3.12 Institutional Unit

Institutional Unit

Establishments

- Situated in a single location
- Mainly has only a single productive activity
- It is the basis for analysis of: Production, Supply and use, Input-output

Enterprise

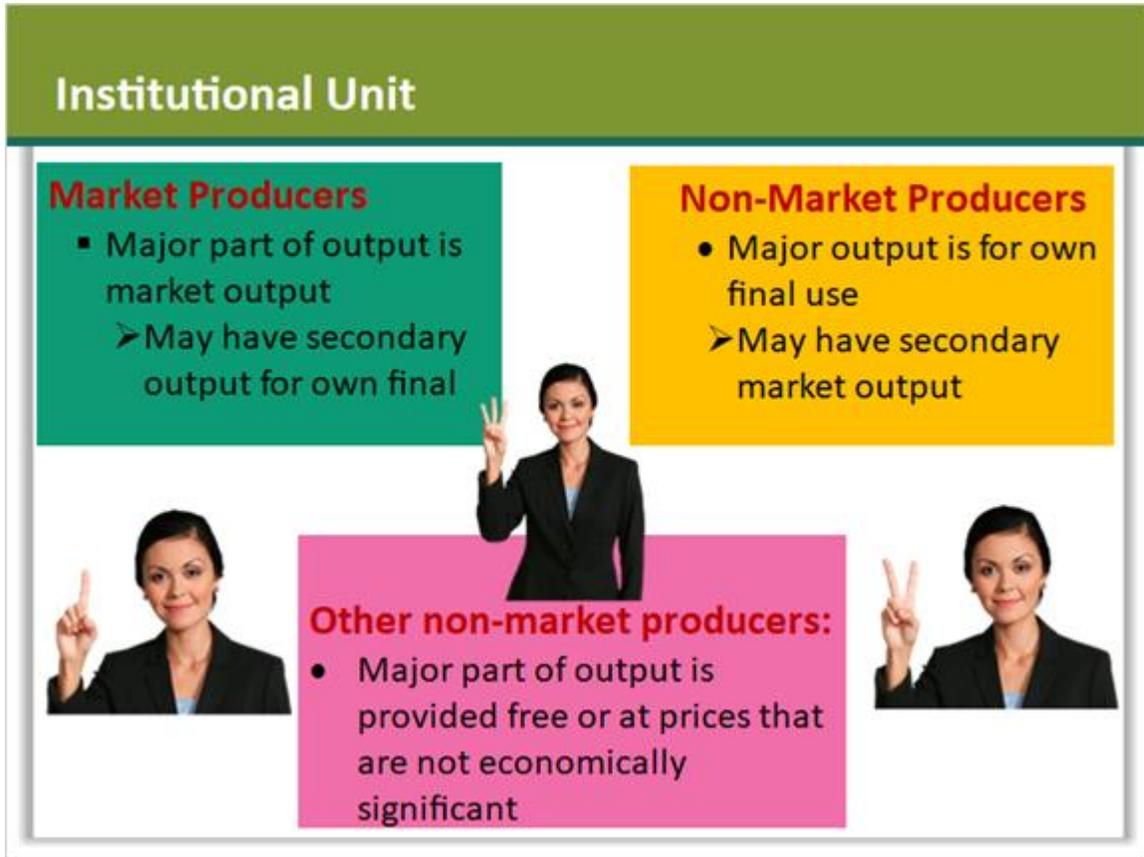
- An institutional unit in its capacity as a producer of goods and services
- It can be:
 - Corporation (including quasi-corporation)
 - Non-profit institution
 - Government unit
 - Unincorporated enterprise



Notes:

An enterprise or part of an enterprise that is situated in a single location with mainly only a single productive activity basis for analysis of Production, Supply and use, Input-output Tables. It is grouped into **INDUSTRIES** using classifications such as the International Standard Industrial Classification of all Economic Activities (ISIC, Rev. 3, Rev.4) It is the basis of compiling only production and generation of income accounts (output, intermediate consumption, value added and its components, gross fixed capital formation).

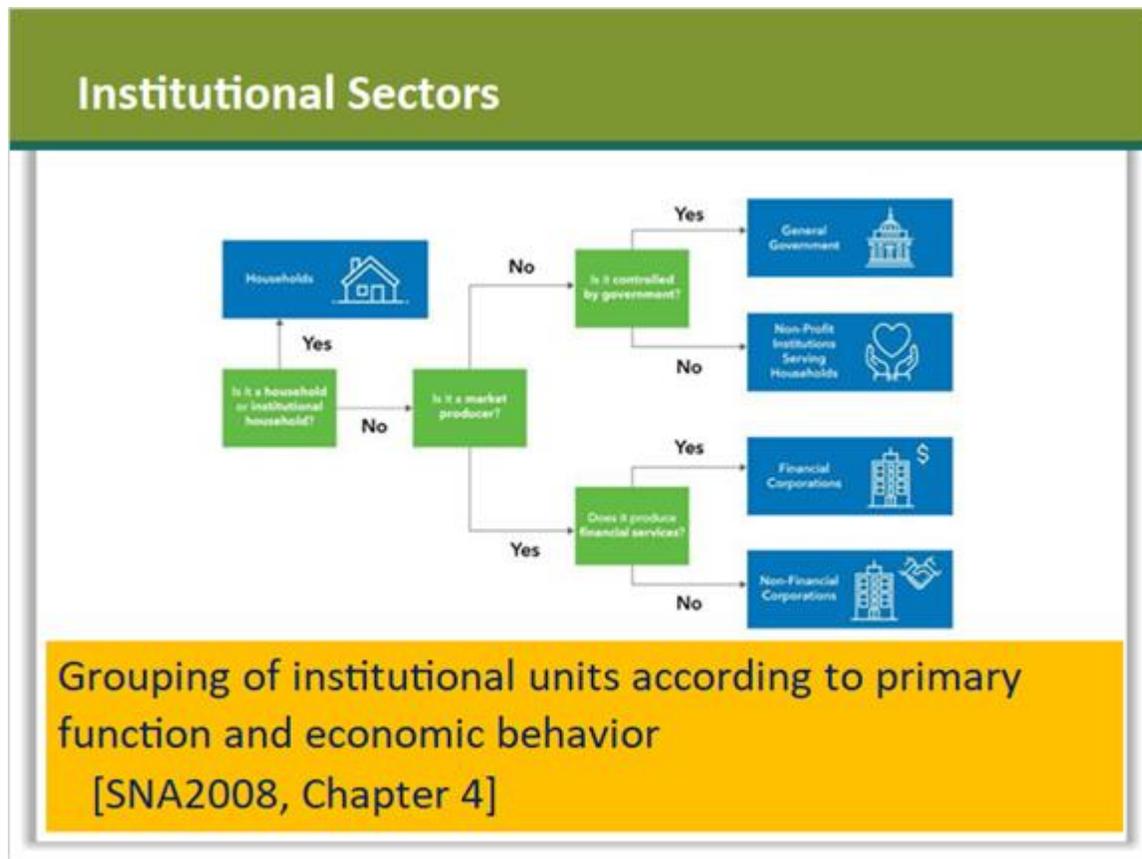
3.13 Institutional Unit



Notes:

Enterprises can be classified as market and non-market producers. Market production is profit oriented and the goods or services attract economically significant prices to recover costs and make profit. Non-market production on the other hand generates output that is provided for free or at prices that are insignificant.

3.14 Institutional Sectors



Notes:

In the SNA, institutional units are classified into five main categories called *institutional* sectors. The classification is based on its objectives and behavior in the economy.

- a) Non-financial corporations’ sector; b) Financial corporations sector; c) General government sector; d) Households sector; e) Non-profit institutions serving households (NPISHs) sector.

3.15 Institutional Sectors

Institutional Sectors

Corporations

- Legal entities
- Specific cases
- Quasi-corporations

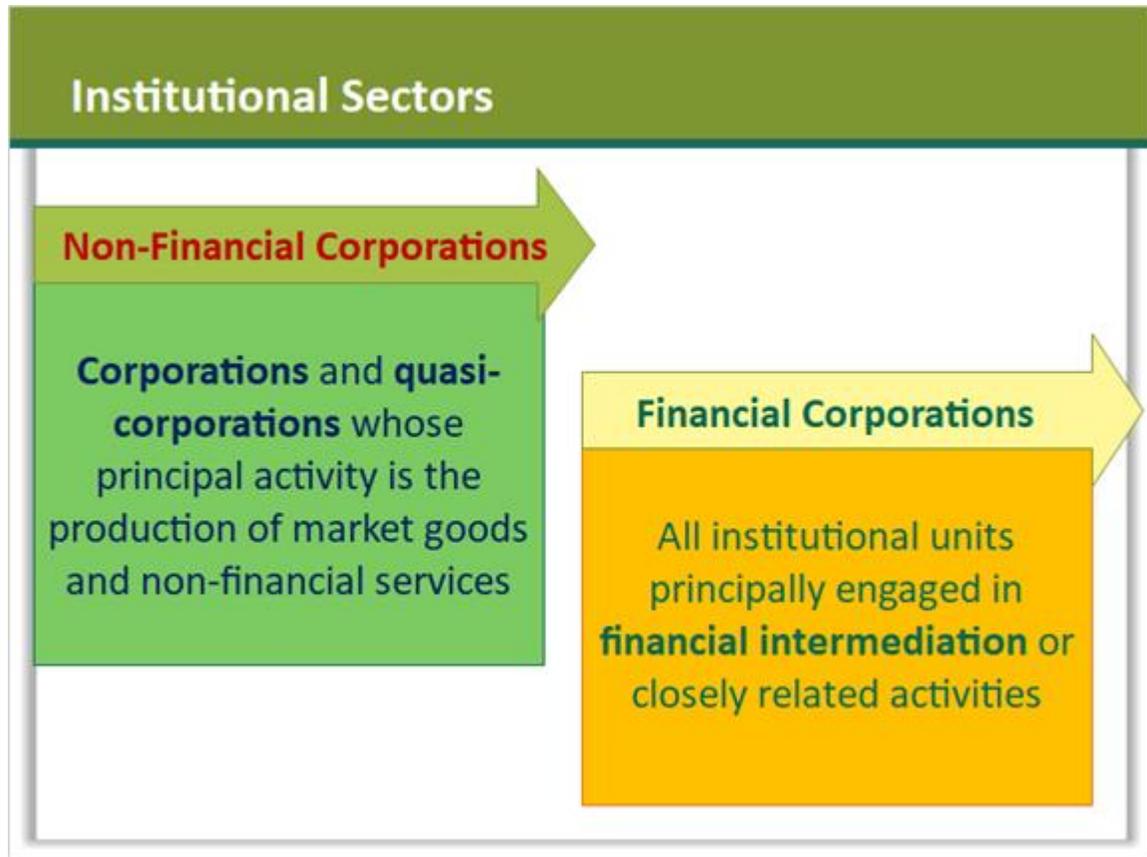


| | Projected Cost | Actual Cost | Difference |
|------------------|----------------|-------------|------------|
| HOUSING | | | |
| Mortgage or rent | € 1,500.00 | € 1,400.00 | € 100.00 |
| Phone | € 60.00 | € 100.00 | € (40.00) |
| Electricity | € 50.00 | € 60.00 | € (10.00) |
| Gas | € 200.00 | € 180.00 | € 20.00 |
| Water and sewer | € 50.00 | € 48.00 | € 2.00 |
| Cable | | | |
| Waste removal | | | |
| Repairs | | | |
| | | | € 1,788.00 |

Notes:

A corporation is a legal entity that produces goods and services for the market, that may be a source of profit or other financial gain to its owner(s). It is collectively owned by shareholders who have the authority to appoint directors responsible for the general management. Specific cases include Subsidiaries, holding companies, ancillary corporations and cooperatives that operate like a corporation and are treated as quasi corporations. A *Quasi Corporation* is an unincorporated enterprise that functions as if it were a corporation. These are unincorporated enterprises owned by households, Government or non-resident units that behave like corporations and have complete set of accounts.

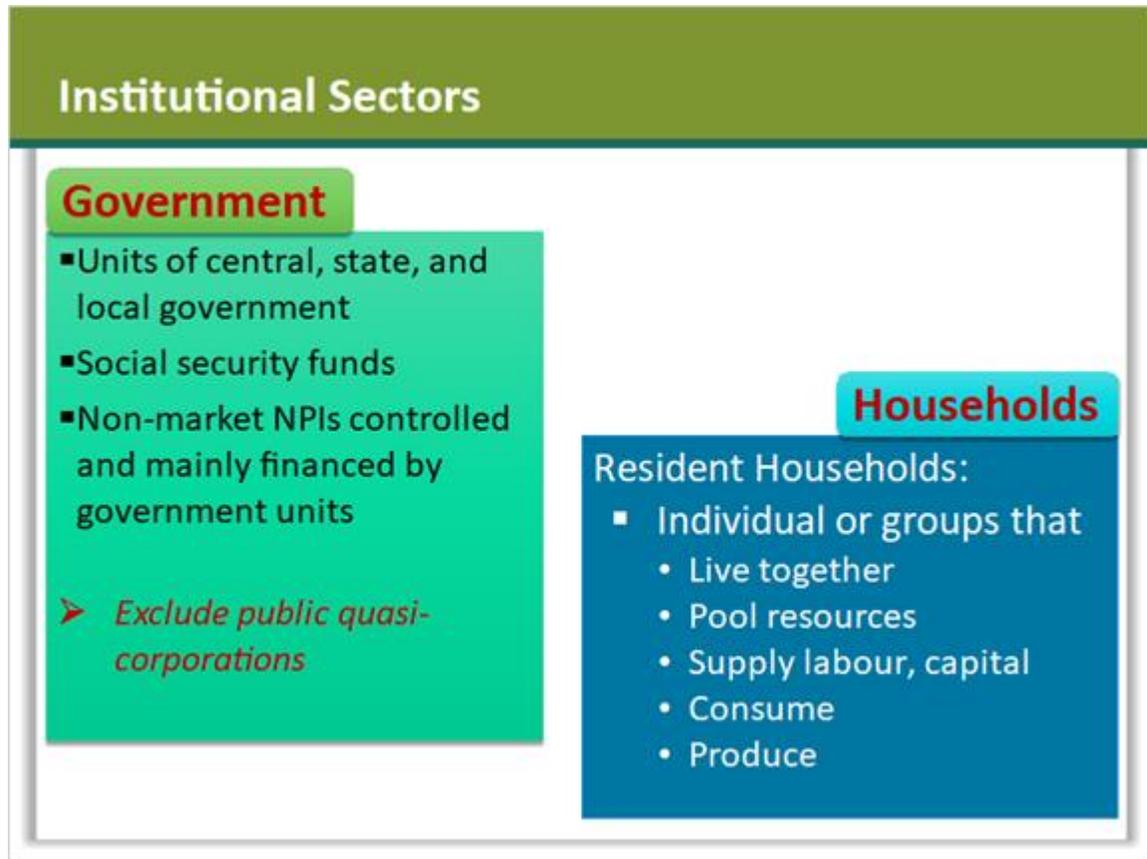
3.16 Institutional Unit



Notes:

Corporations and quasi-corporations are classified into **non-financial** and **financial corporation** in national accounts. Non-financial corporations provide goods and services of non-financial nature. On the other hand, financial institutions provide services related to financial instruments. They are mostly engaged in financial intermediation like banks, and insurance companies.

3.17 Institutional Unit



Notes:

General Government is made up of government units, which organize and finance the provision of non-market goods and services, both individual, such as health and education and collective, such as defense, police for households and community that are provided free or not at economically *significant prices*. This sector includes central government, provincial governments or state authorities, local authorities and the social security funds. Its main functions are production of non-market services (education, health care, defense, policing, etc.) and redistribution of income (taxation and providing subsidies and social benefits).

A household is an institutional unit composed of persons or group of persons with common arrangement for food and shelter while pooling their income. The sector includes all resident household units as consumers and also all the unincorporated enterprises (not classified as corporation or quasi corporation) owned by them. Unincorporated enterprises, which are owned by households but have complete business accounts, are classified as quasi-corporations in the corporation's sector.

3.18 Institutional Unit

Institutional Sectors

Non-Profit Institutions Serving Households

- Non-profit institutions (in a legal sense):
 - Producers of goods and services
 - Cannot be a source of income or profit to those who own or control them

- Financed by
 - Government transfers
 - Membership fees
 - Grants

Notes:

Non-profit institutions are legal or social entities created to provide goods and services to other institutional units, whose status does not permit them to create income, profit or financial gains for those who control and finance them. The NPISHs are only those non-government NPIs (not controlled by the government) that serve households and produce non-market goods and services for households' consumption without charges or at prices not economically significant.

NPISHs are principally engaged in production of non-market services for households and their main resources are voluntary contribution of households and other institutions. Examples: Religious institutions like temples, shires, mosques, churches, charitable organisations providing free education, health and cultural services like Red Cross, trust-run educational institutions, local sporting and cultural clubs run on donations and contributions.

3.19 Answer the Quiz

Quiz

1. All economic transactions take place only through institutional units

True False

2. Institutional units are the basics units for the compilation of national accounts.

True False

3. International organizations are residents of an economy where they are located.

True False

Please state whether these statements are True or False.



Notes:

1. All economic transactions take place only through institutional units > **True**
2. Institutional units are the basics units for the compilation of national accounts. > **True**
3. International organizations are residents of an economy where they are located. > **False**

3.20 Answer the Quiz

Quiz

4. Mobile equipment such as aircraft used in international airspace is treated as resident of countries where the operator is resident

True False

5. Financial corporations are an example of an institutional unit

True False

6. The main difference between market and non-market producers is the price charged on goods and services

True False

Please state whether these statements are True or False.



Notes:

4. Mobile equipment such as aircraft used in international airspace is treated as resident of countries where the operator is resident > **True**
5. Financial corporations are an example of an institutional unit > **False**
6. The main difference between market and non-market producers is the price charged on goods and services > **True**

3.21 End of Lesson



Congratulations!

You have successfully completed the interactive lecture of the Lesson:

Institutional Sectors

You can now answer the **"Lesson Completion Test"** to finalize the lesson.