NATIONAL INCOME
MACRO-ECO-2ND SEM

DEFINITION

NATIONAL INCOME is the total income earned by the residents of a country in the production of goods and services, regardless of where it is earned.

MEASUREMENT METHODS

The value added method/ product method is also known as the output method or inventory method.

GDP= Total product of (industry + service + agriculture) sector

Symbolically, GDP= $\sum (P \times Q)$

Where,

P= Market price of goods and services

Q= Total volume of Output

Sometimes goods produced by one sector is further processed by another sector. These goods are termed as intermediate goods and are already included while determining the value of final goods.

So, in order to avoid the problem of double counting of value of goods, the product method if further categorized into two approaches:

MEASUREMENT METHODS

The Final Goods Approach

In this method, only the value of final goods and services are computed while estimating GDP, regardless of any intermediate goods and their processing. This method takes into account only those goods and services that purchased and consumed by the final consumers in the economy.

The Value Added Method

In the value added method of measuring national income, the value of materials added by producers at each stage of production to produce the final good is considered. The difference between the value of output and inputs at each stage of production is the value added. Thus,

Value added= Value of output – Cost of intermediate goods

MEASUREMENT METHODS

THE INCOME METHOD: Under this method , the incomes that accrue to the factors of production provided by the normal residents of the national territory are summed up .This gives the national income classified by distributive shares.

SO THAT WE CAN WRITE :

NATIONAL INCOME = WAGES + RENT + INTEREST + PROFIT

MEASUREMENT METHODS

THE EXPENDITURE METHOD

Since incomes from production are earned only because some body has spent money on the goods

So, Y = C+I+G+ (X—M) &

Y = C+S +T +R_f

[Where Y = National Income, C= consumption expenditure , I = invest expenditure , G=govt expnd: , (X—M)= net export , S= savings , T = tax , R_f =Transfer payment.

DIFFICULTIES IN THE MEASUREMENT OF NATIONAL INCOME

Conceptual difficulties:

Determination of intermediate and final goods

Services without remuneration

Transfer payments

Income of the foreign companies

DIFFICULTIES IN THE MEASUREMENT OF NATIONAL INCOME

Practical difficulties:

Non-monetised sector.

Lack of occupational specialization.

Non-availability of reliable data.

Goods for self-consumption.

Double counting.

GDP & GNP

GDP=the total money value of all final goods and services produced within the geographical boundaries of the country during given period of time.

GNP=Money value of total output or production of final goods and services produced by the nationals of the country during a given period of time, generally a year.

GNP = GDP + NFIA

Personal Income, Percapita Income & Personal Disposable Income

Personal Income = National Income- Indirect Business Taxes- Taxes on Corporate Income- Undistributed Corporate Profits (Retained Earnings)- Social Security Taxes+ Transfer Payments+ Interest on Government Debt

Percapita Income = (National Income/ Total Population)

Personal Disposable Income = Personal Income – P. Tax

NNP_{FC} & NNP_{MP}

Net National Product (NNP) :- NNP is obtained by subtracting depreciation value from GNP.
NNP = GNP – Depreciation.

NNP can be separated in NNP_{FC} & NNP_{MP}

NNP_{FC} = NNP_{MP} - Indirect Business Tax + Subsidy

REAL GDP & GDP Deflator

REAL GDP = {NOMINAL GDP/Base year Price Level} X 100

GDP Deflator = {NOMINAL GDP / REAL GDP } X 100.

SAVINGS - INVESTMENT IDENTITY

From the N.I we can write,

Y = C+I-------(1) & Y= C+S----------(2).

Where C= Consumption expenditure.

S= Savings .

I= Investment expenditure.

Y= National Income.

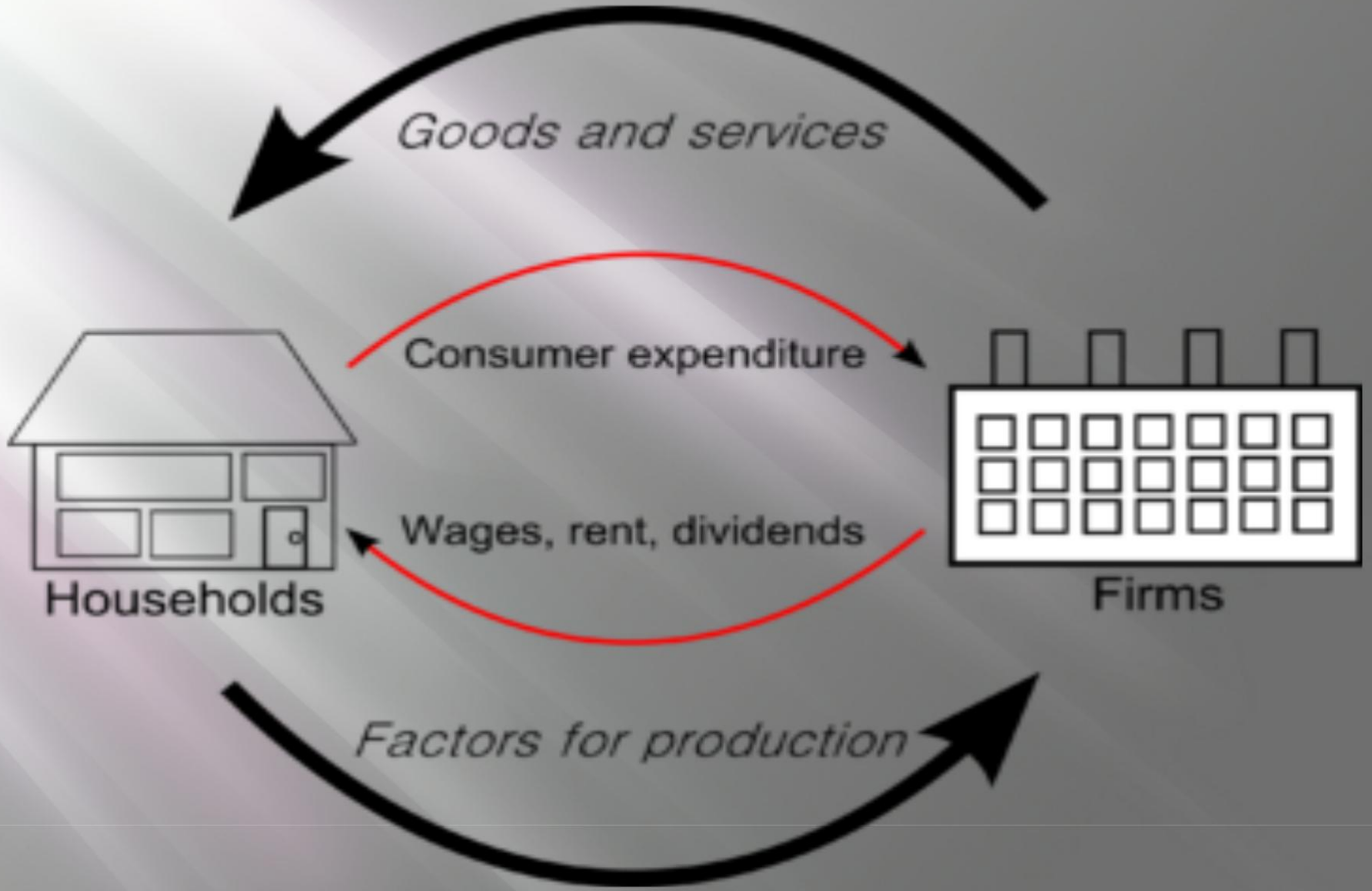
From the equation 1&2 we can write, C+I = C+S. so that ,

I=S.

Sector Wise Measurement of National Income

Name of the SECTORS	Measurement Methods
PRIMARY SECTOR	OUTPUT/PRODUCT METHOD
SECONDARY SECTOR	EXPENDITURE METHOD
TERTIARY SECTOR	INCOME/FACTOR COST METHOD

CIRCULAR FLOWS OF INCOME



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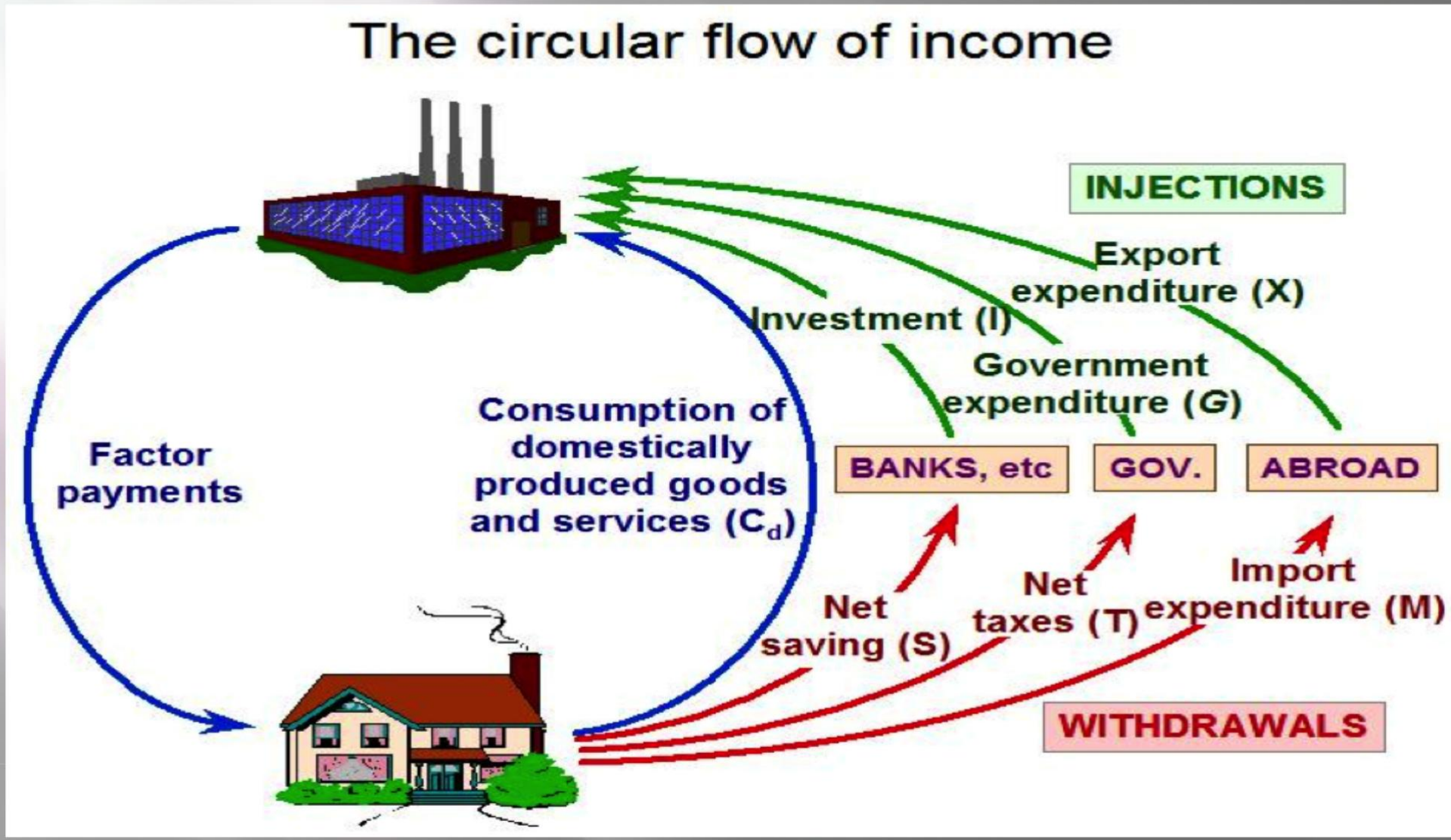

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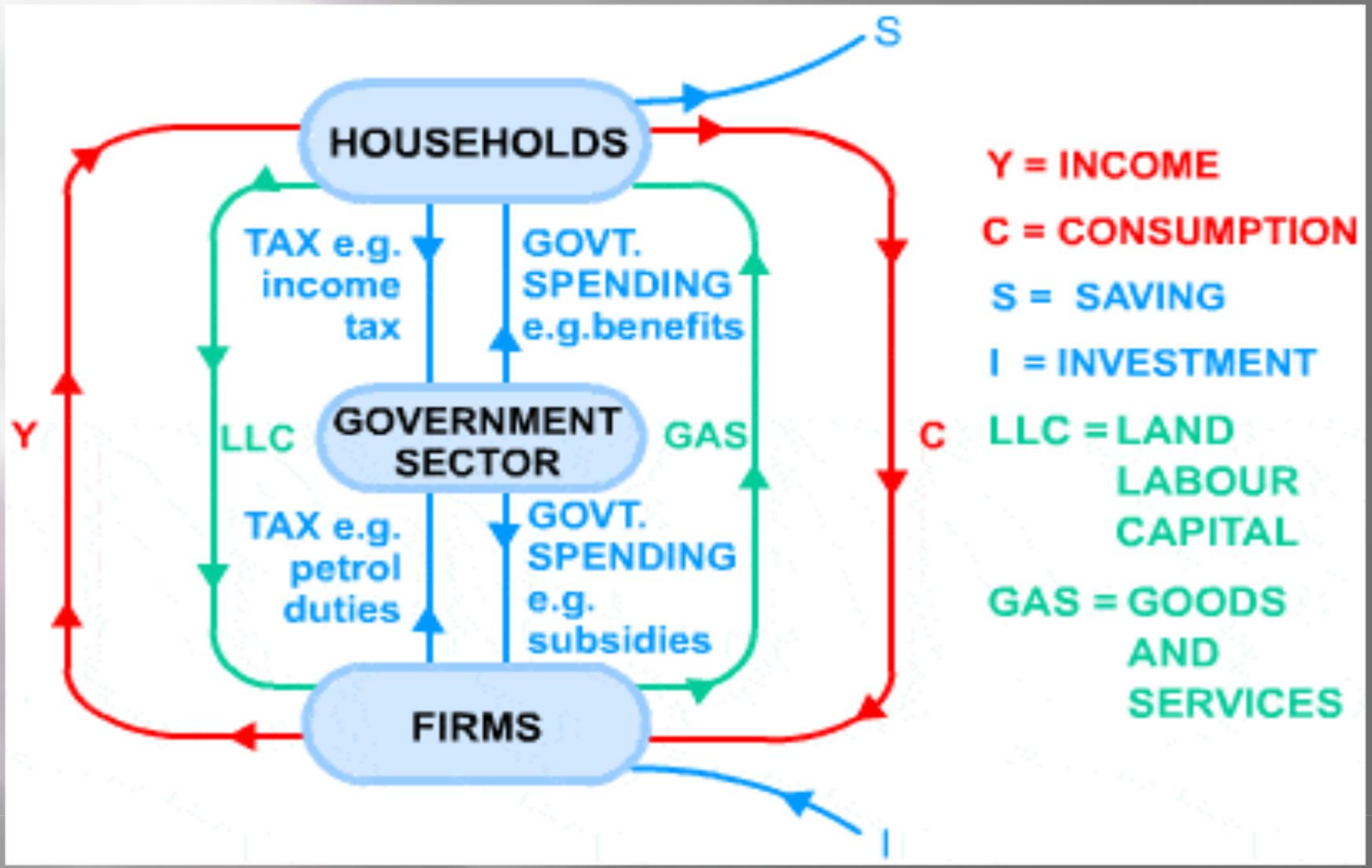

Need for the Study of National Income

To measure the size of the economy and level of country's economic performance.

To trace the trend or speed of the economic growth in relation to previous year(s) as well as to other countries.

To know the structure and composition of the national income in terms of various sectors and the periodical variations in them.

To make projection about the future development trend of the economy.

Need for the Study of National Income

To help government formulate suitable development plans and policies to increase growth rates.

To fix various development targets for different sectors of the economy on the basis of the earlier performance.

To help business firms in forecasting future demand for their products.

To make international comparison of people's living standards