NATIONAL INCOME

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NATIONAL INCOME

- Definition

Simon Kuznets ‘ the net output of commodities and services flowing during the year from a country’s productive system in the hands of ultimate consumers’

Pigou, “National income is that part of objective income of the community, including of course income derived from abroad which can be measured in money.”

FEATURES OF NATIONAL INCOME

- Flow concept
- Value of final goods only
- Macro economic concept
- Monetary measures
- Net exports are added
- Measure of economic progress

IMPORTANCE OF NI

1. Measures economic performance of economies
2. Compares standards of living
3. Sectoral contribution
4. Measurement of economic welfare
5. Changes in price level
6. Business forecasts
7. Economic policies and planning

CONCEPTS OF NATIONAL INCOME

1. **Gross domestic product (GDP)**

- GDP is the money value of final good and services produced within the domestic boundaries of the economy in one financial year
- The Central Statistical Organisation – CSO is responsible for calculating NI in India
- GDP = C + I + G in a closed economy
- GDP = C + I + G + (X – M) in a open economy

Concepts of NI

2. Gross National Income (GNI)

- When net factor incomes from abroad is added to GDP its called GNI
- Net factor income from abroad = R – P
- GNI = C + I + G + (X – M) + (R – P)

CONCEPTS OF NI

3.Net National Income (NNI)

- The NNI and NDP is calculated by subtracting depreciation from GNI or GDP
- NNI = GNI – depreciation
- NDP = GDP - depreciation

CONCEPTS OF NI

4. GDP, GNI, NNP and NDP at

(a) Market price - it is the price paid in the market

Market price = factor cost + indirect taxes - subsidies

(a) Factor cost – amount paid to the factors of production of G/S

Factor cost = market price – indirect taxes + subsidies

CONCEPTS OF NI

5. GDP, GNI, NNI, and NDP at

(a) Current prices refer to the value of G/S prevailing in the market at any given time.

- Current prices do not help in capturing real growth of the economy
- Whenever prices in the economy change NI at current prices will increase, but it does not reflect the real growth
- There has to be increase in the production of G/S

CONCEPTS OF NATIONAL INCOME

(b) Constant price – when measure of NI is calculated at current prices and is then deflated by price index, the resulting GNI, NNI etc is called NI at constant prices.

- Real GNI refers to GNI at constant prices
- Nominal GNI refers to GNI at current prices
- To calculate GNI at constant prices

GNI deflator = Nominal GNI / Real GNI x 100

CONCEPTS OF NATIONAL INCOME

6. Gross value added (GVA)

- Is defined as value of output less the value of intermediate consumption
- GDP = ∑ GVA at base prices + product taxes – product subsidies
- Eg: of product taxes sales tax, service tax
- Eg: of product subsidies petroleum and fertiliser subsidies

CONCEPTS OF NATIONAL INCOME

7. Personal income

- It is the sum of all incomes received by individuals and households in the economy during a year

Personal income = NI + transfer payments – undistributed profits of corporate sector – corporate income taxes – social security contributions

Concepts of National Income

8. Disposable income

- Income available to the individual to spend on consumption and to save

Disposable income = personal income – direct taxes
paid by individuals

9. Per capita income = NI / population

CONCEPTS OF NATIONAL INCOME

10. PPP income – level of GDP can be compared by converting their value in national currency according to

- Current currency exchange rate
- Purchasing power parity (PPP) exchange rate