



**JUSTICE BASHEER AHMED SAYEED COLLEGE FOR WOMEN
(Autonomous) Chennai 18.
S.I.E.T.**

DEPARTMENT OF ECONOMICS

CLASS : II B.A. CORPORATE ECONOMICS

SUBJECT : INDICATORS OF ECONOMIC DEVELOPMENT

UNIT II

NATIONAL INCOME

NATIONAL INCOME

Value of goods and services produced/Economic activities

Within a country

In a particular year

Income earned by all sectors

Primary, Secondary and Tertiary Sector

Calculated without duplication

No double counting

MEANING OF NATIONAL INCOME

National income means the value of goods and services produced by a country during a financial year. Thus, it is the net result of all economic activities of any country during a period of one year and is valued in terms of money.

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DEFINITION OF NATIONAL INCOME

National Income Committee defines **national income** as "the value of commodities and services produced in an economy during a **given** period, counted without duplication."

J.M.Keynes defines national income as" the money value of all goods and services produced in a country in a year"

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CONCEPTS OF NATIONAL INCOME

GNP
Gross National
Product

NNP
Net National Product

GDP
Gross Domestic
Product

PI
Personal Income

DPI
Disposable Personal
Income

PCI
Per Capita Income

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GROSS NATIONAL PRODUCT(GNP)

Gross National Product is the total sum of goods produced in the country during a certain year or their market value.

ASPECTS OF GNP:

- ❖ GNP is a Flow Concept
- ❖ GNP measures Final Output
- ❖ GNP is Output Produced by a citizens of a Country

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Components of Expenditure in GNP

Consumption Expenditure (C) :It includes all personal expenditures incurred by the citizens/households of a country.

Investment (I) : It is the total expenditure incurred by firms and business on capital goods.

Government Expenditure (G) : It includes all type of expenditure incurred by Centre, State and Local Bodies like Municipalities, Corporations and Panchayats on the providing infrastructure facilities, purchases of goods and services such as National Defense ,law and order etc.

Net Exports (X-M): This is the value of exports minus the value of imports.

Formula for GNP: $GNP = C + I + G + (X-M)$
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PER CAPITA INCOME

The average income of the people of a country in a particular year is called per capita income.

Thus,

$PCI = \text{National Income} / \text{Population}$

(or)

$PCI = \text{Real National Income} / \text{Population}$

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Net National Product (NNP)

“ Net National product or national income at market prices is the net market value of all the final goods and services produced in a country during a year. It is found out by subtracting the amount of depreciation of the existing capital in a year from the market value of all final goods and services.”

Formula for Net National Product/National Income:

$$\text{NNP at market price} = \text{GNP at Market Price} - \text{Depreciation.}$$

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GROSS DOMESTIC PRODUCT

C

Household consumption expenditure

I

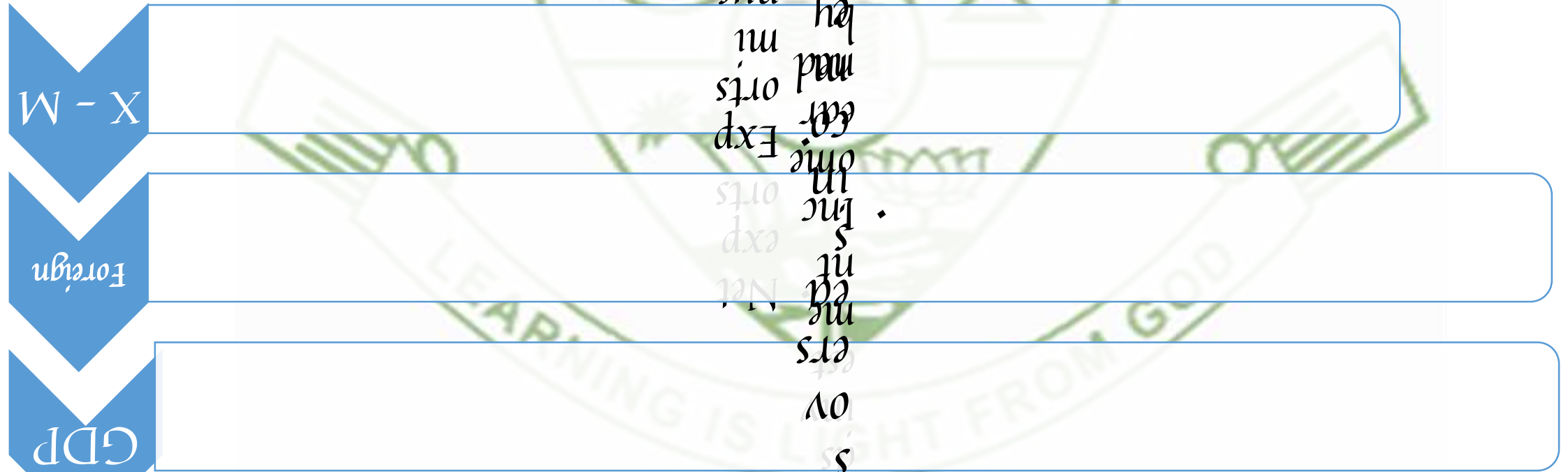
Government consumption expenditure

G

Gross Domestic Product

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GROSS DOMESTIC PRODUCT



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Gross Domestic Product

GNP is commonly **calculated** by taking the sum of personal consumption expenditures, private **domestic** investment, government expenditure, net exports and any **income** earned by residents from overseas investments, minus **income** earned within the **domestic** economy by foreign residents.

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NET NATIONAL PRODUCT

Net national product (**NNP**) is **calculated** by taking GNP and then subtracting the value of how much physical capital is worn out, or reduced in value because of aging, over the course of a year. The process by which capital ages and loses value is called depreciation.

NNP = GNP - Depreciation. **NNP** at Factor Cost: It is the value of **NNP** when the value of goods and services is taken at the production cost.

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DISPOSABLE PERSONAL INCOME

Disposable personal income is the amount, which is actually at the disposal of households to spend as they like. It is the amount, which is left with the households after paying personal taxes such as income tax, property tax, national insurance contributions, etc.

Formula for Disposable Personal Income:

Disposable Personal Income = Personal Income - Personal Taxes

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(or)

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DPI = PI - Personal Taxes.

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PERSONAL INCOME

Personal income includes all income, which is actually received by all individuals in a year. It includes income, which is not directly earned but is received by individuals.

Formula for Personal Income:

Personal Income = { NI + Transfer Payments - Corporate retained earnings, Income Taxes, Social Security Taxes }

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METHODS OF COMPUTING/MEASURING NATIONAL INCOME

Product Method

Expenditure Method

Income Method

Value Added Method

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PRODUCT METHOD

“ That market value of goods and services currently produced within a nation during one year period of time.”

The **main sectors** whose production value is added up are:

1. Agriculture
2. Manufacturing
3. Construction
4. Transport and Communication
5. Banking
6. Administration and Defense.

Value Added Method: Value addition at each stage of production should be calculated to arrive at GNP. Hence, by summing each value for all industries in the economy, GNP can be arrived. Such method is called a Value added method.

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PRECAUTIONS FOR PRODUCT METHOD

Problem of
Double
counting

Production for
self
consumption

Value addition
in Particular
Value

Stock
Appreciation

EXPENDITURE METHOD

Prof. Samuelson calls this as “Flow of Product Approach”. In India it is known as “Outlay Method”. The expenditure approach measures national income as total spending on final goods and services produced within nation during a year. Total aggregate expenditure on final output is the sum of four broad categories of expenditures, which are as follows;

1. Consumption 2. Investment 3. Government 4. Net Export.

Formula for the Expenditure Method:

$$NI = C + I + G + (X - M)$$

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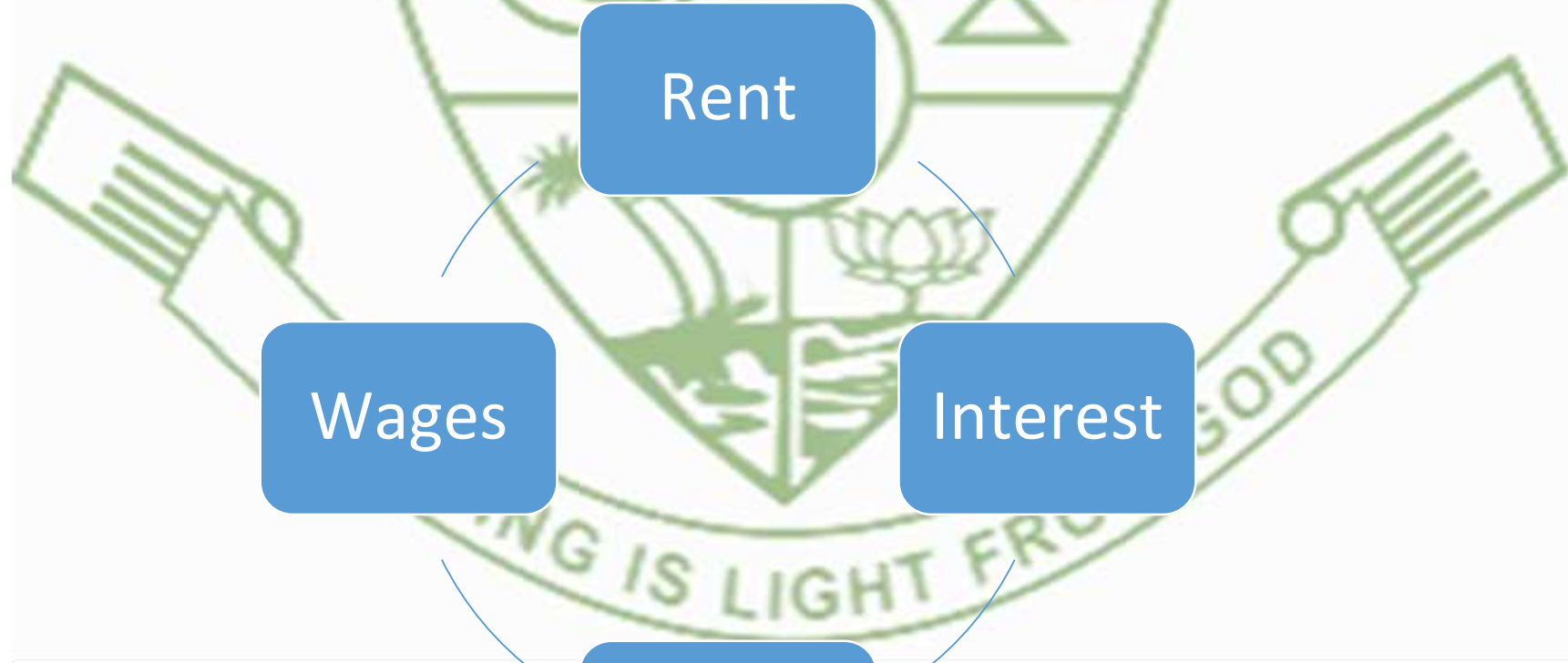
INCOME METHOD

- ❖ Income method seeks to measure national income at the phase of distribution.
- ❖ In the production process of an economy, the factors of production are engaged by the enterprises.
- ❖ They are paid money incomes for their participation in the production. The payments received by the factors and paid by the enterprises are- wages, rent, interest, and profit.
- ❖ National income thus may be defined as the sum of wages, rent, interest and profit received or occurred to the factors of production in lieu of their services in the production of goods.

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INCOME METHOD



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PRECAUTIONS FOR INCOME APPROACH

- ❖ Transfer payments such as gifts, donations, scholarships, indirect taxes, etc., should not be included.
- ❖ Illegal money earned through smuggling and gambling should not be included.
- ❖ Windfall gains such as prizes won, lotteries, etc., are not to be included.
- ❖ Receipts from the sale of financial assets such as shares, bonds, etc., should not be included.

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DIFFICULTIES IN THE MEASUREMENTS OF NATIONAL INCOME

Non availability of statistical material

The danger of Double Counting

Non-marketed services

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DIFFICULTIES IN THE MEASUREMENTS OF NATIONAL INCOME

Illegal money

Capital gains and loss

Transfer Earnings

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DIFFICULTIES IN THE MEASUREMENTS OF NATIONAL INCOME

Self consumed production

Price Level Changes

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MEASURES TO INCREASE NATIONAL INCOME IN INDIA

Development of agriculture

Development of industries

Enhance savings & investment

MEASURES TO INCREASE NATIONAL INCOME IN INDIA

Development of
Infrastructure

Utilization of Natural
resources

Removal of Inequality

MEASURES TO INCREASE NATIONAL INCOME IN INDIA

Control population

Balanced growth.

Higher foreign trade

Economic liberalization

SIGNIFICANCE OF THE STUDY OF NATIONAL INCOME

- ❖ **MEASURE OF ECONOMIC PROGRESS**
- ❖ **INDICATOR OF DISTRIBUTION OF INCOME**
- ❖ **FACILITATE INTERNATIONAL COMPARISON**
- ❖ **KNOWLEDGE ABOUT GROWTH OF DIFFERENT SECTORS**
- ❖ **HELPS IN POLICY MAKING**
- ❖ **EASE IN PLANNING**
- ❖ **FORMULATION OF BUDGET**
- ❖ **SIGNIFICANCE FOR BUSINESS**
- ❖ **INDICATOR OF STANDARD OF LIVING**
- ❖ **DISTRIBUTION OF WEALTH**



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CAUSES FOR LOW GROWTH OF NATIONAL INCOME

Economic
Factors

Non-Economic
Factors

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ECONOMIC FACTORS

- Inadequate capital formation.
- Technological Backwardness.
- Absence of Dynamic Entrepreneurship.
- Lack of Skilled labour.
- Inadequate Supply of Finance and Infrastructure.
- Growth of population.
- Occupational structure.

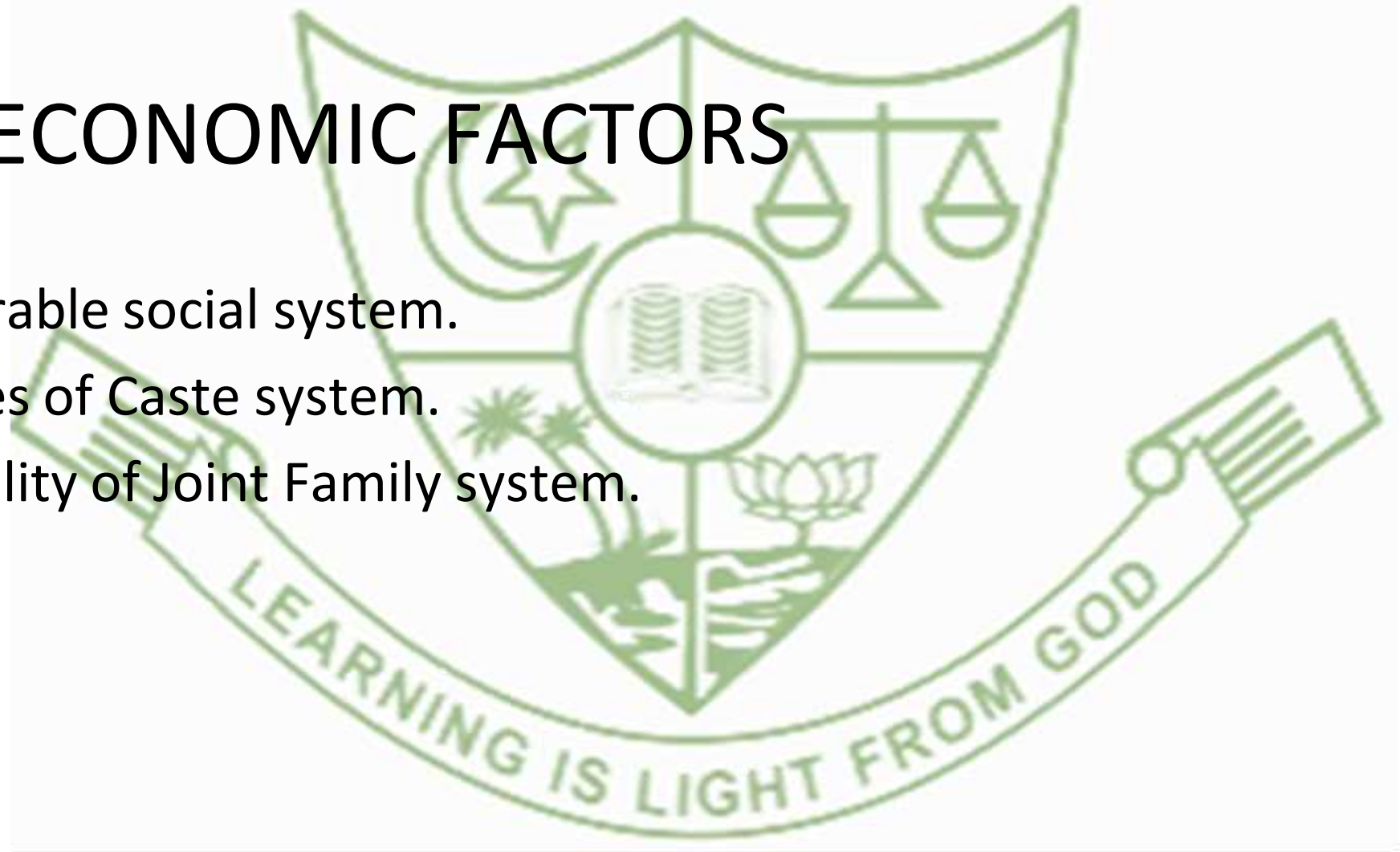
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NON-ECONOMIC FACTORS

- Unfavorable social system.
- Rigidities of Caste system.
- Inflexibility of Joint Family system.



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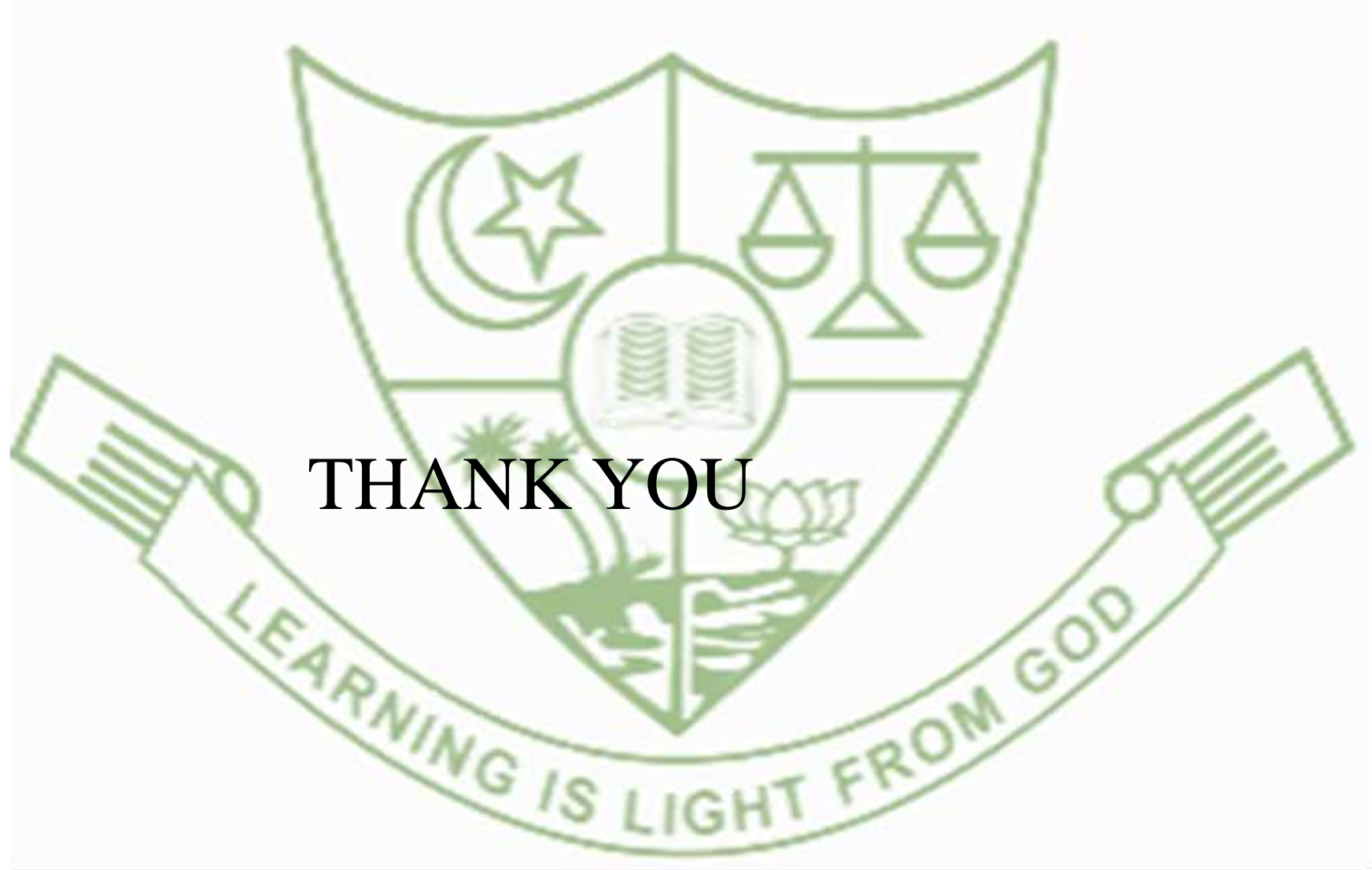
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MEASURES TO INCREASE NATIONAL INCOME IN INDIA

- ❖ Development of Agricultural sector.
- ❖ Development of Industrial sector.
- ❖ Raising the rate of savings and investment.
- ❖ Development of Infrastructure.
- ❖ Utilization of Natural resources.
- ❖ Removal of Inequality.
- ❖ Containing the Growth of population.
- ❖ Balanced growth.
- ❖ Higher growth of Foreign Trade.
- ❖ Economic liberalization.

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