



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

DEPARTMENT OF ECONOMICS

**B.COM. IED UNIT II
NATIONAL INCOME**

Meaning and Definition of National Income

Meaning: National income is the money value of all the final goods and services produced by a country during a period of one year.

Definition :

National Sample Survey (NSS) defined, “National Income as money measures of the net aggregates of all commodities and services accruing to the inhabitants of a community during a specific period”.

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CONCEPTS OF NATIONAL INCOME

GNP

NNP

PI

PCI

DPI

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GROSS NATIONAL PRODUCT GDP

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 of a country.

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

Government Expenditure (G) : It includes all type of expenditure incurred by Federal, Provincial, and Local Councils on the 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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Net National Product (NNP)/national Income

“ 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:

NNP at market price=GNP at Market Price-Depreciation.

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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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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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DPI = PI - Personal Taxes.

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

There are three methods of measuring National Income.

THE PRODUCT METHOD/VALUE ADDED METHOD

THE EXPENDITURE METHOD

INCOME 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.

PRECAUTIONS FOR PRODUCT METHOD

- Problem of Double counting
- Value addition in Particular Value
- Stock Appreciation
- Production for self consumption

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THE 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:

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

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INCOME APPROACH

- Income Approach 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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The four categories of payments are:

- Rents
- Interest
- Profits
- Wages



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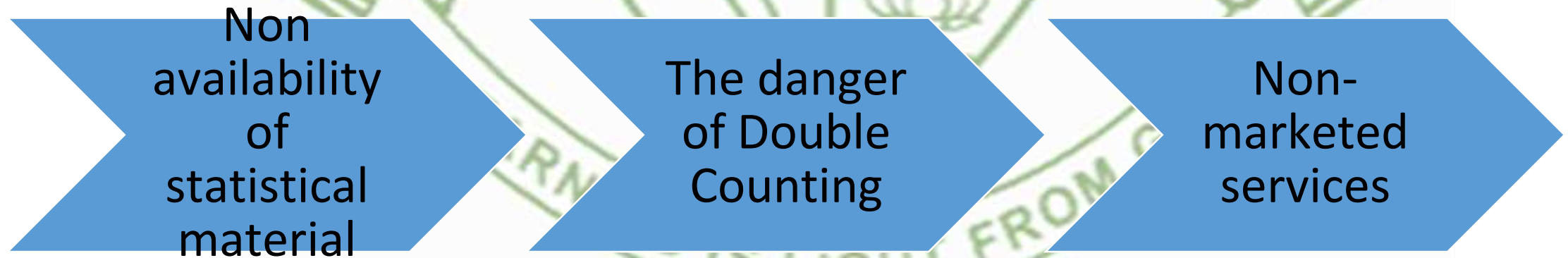
PRECAUTIONS FOR INCOME APPROACH

- 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



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Difficulty in
assessing
the
Depreciation
allowance

Housing

Transfer
Earnings

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Self consumed
production

Price Level Changes

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SIGNIFICANCE OF THE STUDY OF NATIONAL INCOME

1. MEASURE OF ECONOMIC PROGRESS.

2. INDICATOR OF DISTRIBUTION OF INCOME.

3. FACILITATE INTERNATIONAL COMPARISON.

4. KNOWLEDGE ABOUT GROWTH OF DIFFERENT SECTORS.

5. HELPS IN POLICY MAKING

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6. EASE IN PLANNING.

7. FORMULATION OF BUDGET.

8. SIGNIFICANCE FOR BUSINESS.

9. INDICATOR OF STANDARD OF LIVING.

10. DISTRIBUTION OF WEALTH.

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CAUSES FOR THE SLOW GROWTH OF NATIONAL INCOME IN INDIA.

I. Economic factors

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

II. Non-economic factors

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

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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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