

Lecture on National Income

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- National income is the aggregate money value of all goods and services produced in a country during a year
- It can also be viewed as income distributed among the factors of production in the form of rent, wages, interest and profits
- It is also interchangeably used with national dividend, national output and national expenditure
- Simon Kuznets defined the national income as **“the net out put of commodities and services flowing during the year from the productive system in the hands of ultimate consumer”**

Concept of National Income

- **Gross National Product (GNP)**: It is defined as the total market value of all final goods and services produced in a year
- It includes the market value of such products are produced in agriculture, mines, forests, industries and other services like transportation, communication, banks, lawyers, doctors, teachers and these added together during one year

Those service not included in GNP as follows:

- Services which are rendered freely
- The transactions relating to the goods which are not currently produced
- The sale and purchase of old goods and shares, bonds, assets of business
- Unemployment allowances and old age pensions

Measures of GNP

There are three methods 1) Income methods
2) Expenditure method 3) Value added method

1) Income method: It includes wages, salaries, rents, interest, Incomes of non-company business, corporate profits, indirect taxes, depreciation, transfer payments

GNP= wages + Salaries + Rents + Interest + Incomes of non-
company business + Corporate profits + Indirect
taxes + Depreciation- transfer payments

2) Expenditure method:

- Through this GNP is the sum total of expenditure incurred on goods and services during a period of one year.
- Expenditure includes personal consumption expenditure, gross domestic private investment, net foreign investment and government expenditure on goods and services

GNP= Personal consumption expenditure (c)+Gross domestic private investment (I)+ Net foreign investment (X-M)+Govt. expenditure on goods and services (G)

3) Value added method:

It is always difficult to distinguish between intermediate products (raw material, fuel etc) and final goods (machinery, equipment) as raw material is a intermediate product for one industry and final product for the other industry.

Net National Product (NNP)

- Also known as National Income at market price
- The amount of decline in the value of capital goods due to wear and tear is called depreciation
- To estimate the NNP, depreciation is deducted from GNP
- NNP therefore is the market value of all final goods after duly accounting for depreciation, hence the name national income at market prices
- NNP is the net money value of final goods and services produced at current prices in an year in a country

NNP = GNP - depreciation

National Income (NI) :

- National income at factor cost implies the sum of all incomes earned by resources suppliers for their contribution of land, labour, capital and entrepreneurial ability, which go into the net production in an year.

National Income=NNP-Indirect taxes + subsidies

Personal Income (PI):

- It is the sum of all the incomes actually received by all individuals or households during a given year

PI= NI-Social security contributions- corporate income taxes- undistributed corporate profits+ transfer payment

Disposable Income (DI)

- It is the amount of money available with the private individuals to spend. To arrive at the disposable income personal taxes (income and personal property taxes) are deducted from personal income.

$$\text{DI} = \text{PI} - \text{Personal taxes}$$