National Income

Introduction:

It is the sum total of wages rent interest and profit earned by the factors of production of a country nin a year. Thus it is the aggregate values of goods and services rendered during a given period counted without duplication.

Basic Concepts of National Income

There are various concepts of National Income. The main concepts of NI are: GDP, GNP, NNP, NI, PI, DI, and PCI. These different concepts explain about the phenomenon of economic activities of the various sectors of the various sectors of the economy.

1. Gross Domestic Product (GDP):

The most important concept of national income is Gross Domestic Product. Gross domestic product is the money value of all final goods and services produced within the domestic territory of a country during a year.

Algebraic expression under product method is,

GDP = (P*Q)

where,

GDP=Gross Domestic Product

P=Price of goods and service

Q=Quantity of goods and service

denotes the summation of all values.

According to expenditure approach, GDP is the sum of consumption, investment, government expenditure, net foreign exports of a country during a year.

Algebraic expression under expenditure approach is,

GDP=C+I+G+(X-M)

Where,

C=Consumption

I=Investment

G=Government expenditure

(X-M)=Export minus import

GDP includes the following types of final goods and services. They are:

1. Consumer goods and services.
2. Gross private domestic investment in capital goods.
3. Government expenditure.
4. Exports and imports.

2. Gross National Product (GNP):

Gross National Product is the total market value of all final goods and services produced annually in a country plus net factor income from abroad. Thus, GNP is the total measure of the flow of goods and services at market value resulting from current production during a year in a country including net factor income from abroad. The GNP can be expressed as the following equation:

GNP=GDP+NFIA (Net Factor Income from Abroad)

or, GNP=C+I+G+(X-M)+NFIA

Hence, GNP includes the following:

1. Consumer goods and services.
2. Gross private domestic investment in capital goods.
3. Government expenditure.
4. Net exports (exports-imports).
5. Net factor income from abroad.

3. Net National Product (NNP):

Net National Product is the market value of all final goods and services after allowing for depreciation. It is also called National Income at market price. When charges for depreciation are deducted from the gross national product, we get it. Thus,

NNP=GNP-Depreciation

or, NNP=C+I+G+(X-M)+NFIA-Depreciation

4. National Income (NI):

National Income is also known as National Income at factor cost. National income at factor cost means the sum of all incomes earned by resources suppliers for their contribution of land, labour, capital and organizational ability which go into the year's net production. Hence, the sum of the income received by factors of production in the form of rent, wages, interest and profit is called National Income. Symbolically,

NI= NNP + Subsidies - Interest Taxes

or, GNP – Depreciation + Subsidies - Indirect Taxes

or, NI = C + G + I + (X – M) + NFIA – Depreciation - Indirect Taxes + Subsidies

5. Personal Income (PI):

Personal Income is the total money income received by individuals and households of a country from all possible sources before direct taxes. Therefore, personal income can be expressed as follows:

PI=NI-Corporate Income Taxes-Undistributed Corporate Profits-Social Security Contribution + Transfer Payments

6. Disposable Income (DI):

The income left after the payment of direct taxes from personal income is called Disposable Income. Disposable income means actual income which can be spent on consumption by individuals and families. Thus, it can be expressed as:

DI=PI-Direct Taxes

From consumption approach,

DI=Consumption Expenditure + Savings

7. Per Capita Income (PCI):

Per Capita Income of a country is derived by dividing the national income of the country by the total population of a country. Thus,

PCI=Total National Income/Total National Population