NATIONAL INCOME: CONCEPTS AND MEASUREMENT

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Contents

• Definitions of National Income.
• Concepts of National Income.
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Definitions of National Income

- **Dr. Marshall**: The labour and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial, including services of all kinds. This is the true annual income or revenue of the country or National dividend.
Definitions of National Income

- **Prof. Pigou**: National income is that part of the objective income of the community including of course income derived from abroad which can be measured in money.

- **Prof. Fisher**: National income means the services enjoyed by the ultimate consumer with the help of their physical or human resources.
Concepts of National Income

1) Gross National product
2) Net National Product
3) Gross Domestic Product
4) Personal Income
5) Disposable Income
6) Per capita Income
1) Gross National Product: Gross National product is the market value of goods and services produced in a particular year.

- Gross National Income includes the value of goods produced in agriculture, mines, forest, as well as value of services e.g. transport, banks, life insurance, lawyer, Doctor, and Teacher etc.
An important factors in Gross National Income

• In view of Gross National Income the value of final product should be considered.

• Free services should not be included in Gross National Income.

• Increased profits due to change in commodity price should not be included in national income.

• Income from illegal sale of goods should not be reported to national income.
2) Net National Product: Net National product is obtained when depreciation is deducted from Gross National Income.


- National Income or National Income at factor cost = Net National product at market (national income at market price) - indirect taxes+subsidies.
3) **Gross Domestic Product**: The Gross Domestic Product is the monetary value of total goods and services produced within the Geographical boundary of the country.

- GDP = GNP - Net factor income from abroad.
4) **Personal Income**: Personal income is called the amount of income that all individuals or households in the country receive in a specific year.

- **Personal Income = National Income - Corporate Income Taxes - Undistributed Corporate Profits + Transfer Payment.**
Disposable Income

5) Disposable Income: Disposable income from the individual or the household is not spend for all consumption as the part of the income is tax deductible to the government and remaining income is used.

• Disposable Income = Personal Income - Personal Taxes.
• Disposable Income is not something that must be spent hence
• Disposable income = consumption + saving.
6) Per Capita Income: Per Capita Income is the national income divided by the total population of a country.

National Income

• Disposable Income = ____________________

Total Population
Measurement of National Income

1) Income Method:

• The production of any commodity in the country takes place with the help of various factors of the production.

• Production factors are rewarded for such a services.

• Labour gets wages, Land gets rent, capital gets interest, and entrepreneur gets profit.
2) Production Method:

- According to this method the aggregate production of the final goods and services in an economy in any one year is evaluated in terms of money.
- The cost of goods and services produced in various sectors, such as the agriculture, industry, trade, transport etc. in the economy, is calculated by adding the cost.
- The sum of the value of money in the final goods and services
Expenditure Method

3) *Expenditure Method*: According to this method, gross national product is the sum of the expenditure incurred on the purchases of goods and services in a particular period in the country.

- Sum total of net expenditure of families, business and governments plus net foreign investment.
Expenditure Method

- This includes following Expenditure
  - Personal Consumption Expenditure
  - Gross Private Investment
  - Government Purchases
  - Net Export
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