

National Income:

- Is the total value of goods and service produced by a country within a period of time.
- Time period is usually 1 year
- It is measured in terms of money.

GDP – Gross domestic product

Measurement of this National income is of three types:

1. Expenditure method: this measures the total spending on the goods and service

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

C- Consumption

I – Investment

G- Government expenditure

X – M = Net export (Export – Import)

2. Income Method:

All the income earned from the production

Wage, salary, rent , profit or interest

3. Output – Value added

For example

Lets say, a farmer sells wheat for 2 euros

And a baker turns this wheat and sells it for 5 euros (5-2 = 3)

Total output = 2 + 3 = 5

Gross National Income:

GNI:

= GDP + Net income from abroad

Depreciation:

Wear and tear of machines, buildings over a time period

Net domestic product: NDP

NDP = GDP – Depreciation

Net national income NNI = GNI – Depreciation

Circular income:

- Open Economy
- Closed Economy

Open Economy:

Government and Foreign trade

Closed Economy: Household and firms

Injection and Leakage:

Injection:

Investment + Government spending + Exports

Leakage:

Savings + Taxes + Imports