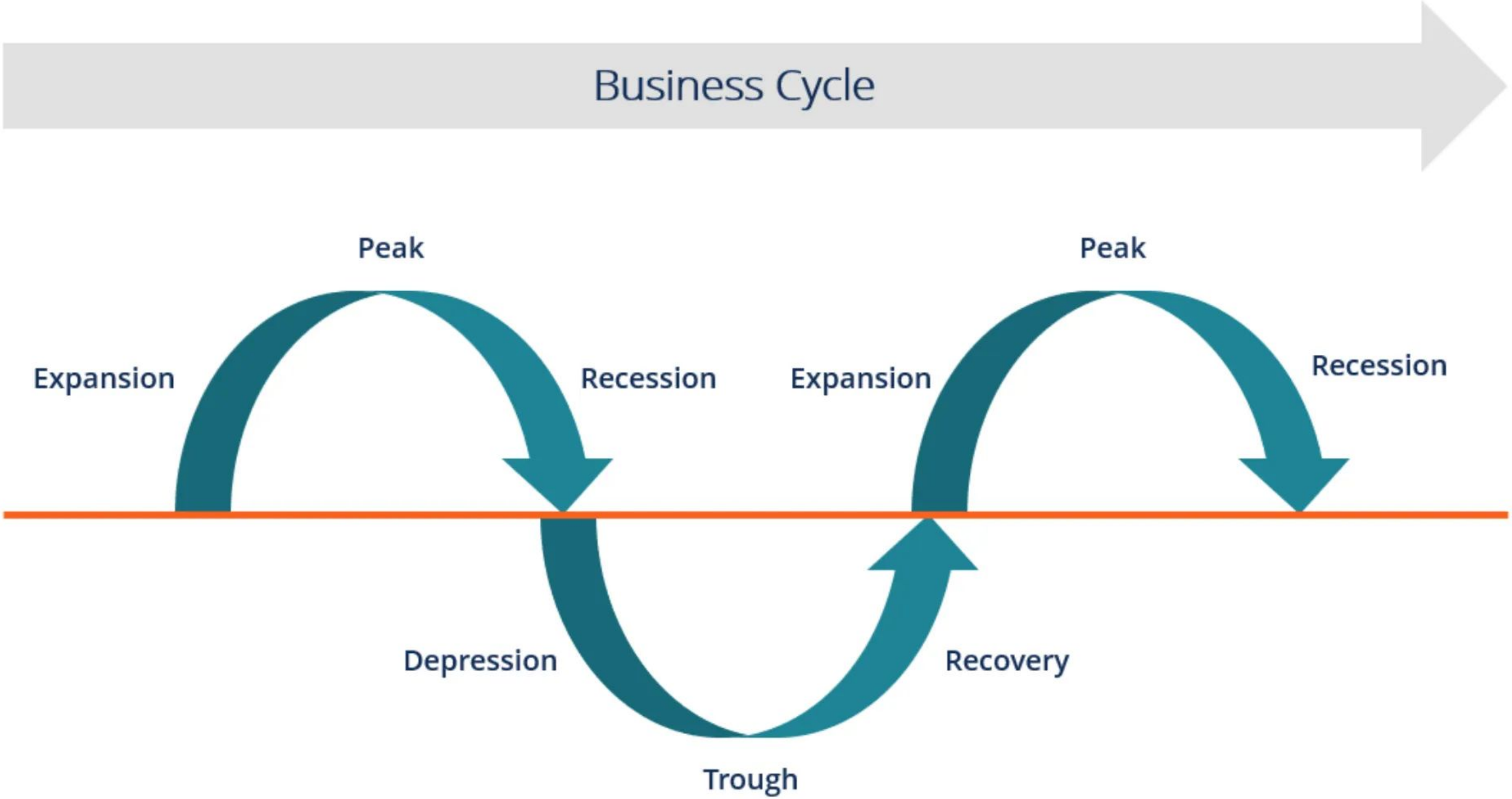
Business Cycles

Business cycles are cyclical upswings and downswings in the broad measures of economic activity like, GDP, Employment, Demand & Supply, Income etc.

It explains the expansion and contraction in economic activity that an economy experiences over time.


Business Cycle
Peak
Peak
Expansion
Recession
Expansion
Recession
Depression
Recovery
Trough

Stages/Phases of Business Cycles

Business Cycles are said to pass through six different stages:

1. Expansion
2. Peak
3. Recession
4. Depression
5. Trough
6. Recovery

National Income

National Income is the total flow of wealth produced, distributed, consumed and saved with in the country during a given period of time.

It can be even viewed as the money value of all the goods and services produced in a country during a financial year.

Importance/Significance of National Income

National Income data are of utmost importance for the economy of any country primarily because national income is the most dependable indicator of a country's economic health. Such data reveal the aggregate production/total expenditure/total income of the economy for a year and thus provide database for comparisons.

1. Economic Policy
2. Economic Planning
3. Economy's Structure
4. Inflationary and Deflationary gaps
5. Budgetary Policies

6. National Expenditure

7. Distribution of Grants-in-aid

8. Standard of living comparison

9. International Sphere

10. Defence and Development

11. Public Sector

Methods for Measuring National Income

The national income of a country can be measured by three alternative methods: (i) Product Method (ii) Income Method, and (iii) Expenditure Method.

1. Product Method:

In this method, National Income is measured as a flow of goods and services

2. Income Method:

Under this method, National Income is measured as a flow of factor incomes

3. Expenditure Method:

In this method, National Income is measured as a flow of expenditure.

Concepts underlying measurement of National Income

The following concepts are used widely to measure and express National Income.

1. Gross National Product (GNP)
2. Net National Product (NNP)
3. Gross Domestic Product (GDP)
4. Net Domestic Product (NDP)
5. Personal Income
6. Disposable Personal Income.

1. **Gross National Product (GNP):**

The GNP of a country is the aggregate money value of the final goods and services produced in that country in a given year.

GNP at market prices = C + I + G + (X - M) + (R - P)
GNP at factor costs = C + I + G + (X - M) + (R - P) - IT + S

2. **Net National Product (NNP):**

Depreciation is deducted from GNP to obtain NNP

NNP at market Prices = GNP at market prices - (D)
NNP at factor costs = GNP at factor costs - (D)

3. Gross Domestic Product (GDP):

The GDP is based on domestic income only. Income received from abroad is not considered here.

GDP at market prices = GNP at market prices - (R - P)

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

GDP at factor costs = GDP at factor costs - (R - P)

Alternatively = C + I + G + (X - M) - IT + S

4. Net Domestic Product (NDP):

The NDP is the excess of GDP over and above depreciation.

NDP at market prices = GDP at market prices - depreciation (D)
Alternative = C + I + G + (X - M) - D
NDP at factor costs = GDP at factor costs - depreciation (D)
Alternatively = C + I + G + (X - M) - IT + S - D