

Expenditure Method

The expenditure method of measuring national income is also called Income Disposal method or Final Expenditure method or Consumption and Investment Method. According to this method, national income is measured in terms of expenditure on purchase of final goods and services produced in the economy during an accounting year.

Step -1 : Identification of Economic units which incur final expenditure

There are four categories of economic units incurring final expenditure within the domestic territory of a country :

- a) Household sector
- b) Firm/Production sector
- c) Government sector
- d) Rest of the World Sector

Step ① Identification of Economic units which incur final exp

- Household Sector
- firm Sector
- Govt. Sector
- Rest of the world Sector

Step ② Classification of final exp.

① Private final Cons. exp.

→ food, education, Health,
clothing ...

(+)
Non profit organisation

Rest of the world sector

Step ② Classification of final exp.

① Private final Cons. exp.



→ food, education, health,
clothing....

(+)

Non profit organisation

② Govt. final Consumption exp.

→ Law and order, defence, health,
education...

Step (2) Classification of final exp.

① Private final Cons. exp.

C

→ food, education, health,
clothing....

(+)

Non profit organisation

② Govt. final Consumption exp.

G

→ Law and order, defence, health,
education...

education ~.

③ Gross Domestic Capital formation (Investment) I

Gross Domestic
fixed Capital
formation

(+)

Inventory Investment

OR

Change in stock
[$cs - os$]

FIXED Capital
formation

OR
Change in stock
[CS - OS]

④ Net export (Export - Import) [X - M]

FIXED Capital
formation

OR
Change in stock
[$cs - os$]

④ Net export (Export - Import) [$x - m$]

Step ③ Calculation of GDP_{mp}

$$GDP_{mp} = C + G + I + (x - m)$$

Step -2 : Classification of Final Expenditure:

- a) Private Final Consumption Expenditure (C)
- b) Government Final Consumption Expenditure (G)
- c) Gross Domestic Capital Formation (Gross Domestic Investment) (I)
 - Gross Domestic Fixed Capital Formation
 - Change in Stock (Inventory Investment)
- d) Net Exports (X-M)

Step – 3 : Calculation of GDPmp

$$\text{GDPmp} = C + G + I + (X-M)$$

Step – 4 : Calculation of National Income

$$\text{NNPfc} = \text{GDPmp} - \text{NIT} + \text{NFIA} - \text{Dep.}$$

Precautions involved in this Method

- 1) Transfer Payments like scholarship, old age pension etc. = **not included**
- 2) Final Expenditure = **Included**
- 3) Intermediate expenditure = **not included**
- 4) Expenditure on Purchase of second hand goods. = **not Included**
- 5) Expenditure on Shares & Bonds = **not Included**
- 6) Imputed value of owner self occupied house = **included**
- 7) Goods Produced for self consumption = **Included**
- 8) Services produced for self consumption = **Not included**