NATIONAL INCOME

National income refers to the monetary value over a period of time of the output flow of goods and services produced in an economy.

The Uses of National Income Statistics

Measuring the level and rate of growth of national income (Y) is essential to keep track of:

- The rate of economic growth
- Changes to living standards
- Changes to the distribution of income b/w groups

Gross Domestic Product

The total value of output in an economy is the Gross Domestic Product (GDP) and is used to measure economic activity changes. GDP encompasses the production of foreign-owned enterprises located in a country following the foreign direct investment.

There are three different ways to calculate GDP that should all add up to the same amount: The national output is equal to national expenditure (Aggregate demand) which in turn is equal to national income.

The equation for GDP using this approach is

GDP = C(Household spending) + I(Capital investment spending) + G(Government spending) + (X(Exports of Goods and Services)-M(Imports of Goods and Services)

The three different ways to measure GDP are - Product Method, Income Method, and Expenditure Method.

These three calculating GDP methods yield the same result because National Product = National Income = National Expenditure.

1. **The Product Method:**

In this method, all goods and services produced during the year in various industries are added up. This is also known as value-added to GDP or GDP at the sector of origin's cost factor. India includes the following items: agriculture and allied services; mining; development, construction, the supply of electricity, gas, and water, transport, communication, and trade; banking and industrial real estate and property ownership of residential and commercial services and public administration and defence and other services (or government services). It is, in other words, the amount of the added gross value.

2. **The Income Method:**

In a nation that produces GDP during a year, people earn income from their jobs. Thus the sum of all factor incomes is GDP by revenue method: wages and salaries (employee compensation) + rent + interest + benefit.

3. **Expenditure Method:**

This approach focuses on products and services generated during one year within the region.

GDP is subtracted from the portion of consumption, investment, and government spending expended on imports. Likewise, all manufactured components, such as raw materials used in the manufacture of products for sale, are also exempt.

Thus GDP by expenditure method at market prices is net export, which can be positive or negative.

4. **GDP at Factor Cost:**

GDP is the amount of net value added by all producers within the country at the cost factor. Since the net value added is allocated as revenue to the owners of production factors, the sum of domestic factor incomes and fixed capital consumption is GDP (or depreciation).

Thus,

GDP at Factor Cost is equal to the sum of Net value added and Depreciation.

GDP at factor cost includes -

Compensation of employees, i.e., wages, salaries, etc.

Operational surplus, which is both incorporated and unincorporated companies' business profit.

Mixed-Income of Self- employed.

Conceptually, GDP at the cost factor and GDP at the market price must be equivalent since the cost factor (payments to factors) of the products produced must be equal to the final value at market prices of the goods and services. The retail value of products and services, however, varies from the earnings of the output factors.

5. Net Domestic Product (NDP):

The NDP is the value of the economy's net production throughout the year. During the manufacturing process, some of the country's capital equipment wears out or becomes redundant each year. A certain percentage of the gross expenditure removed from GDP is the amount of this capital consumption.

Net Domestic Product = GDP at the expense of Factor - Depreciation

6. Nominal and Real GDP:

It is referred to as GDP at current prices or nominal GDP when GDP is calculated based on the current price. On the other hand, if GDP is measured in a given year based on fixed costs, it is referred to as GDP at constant prices, or actual GDP.

Nominal GDP is the value of the goods and services produced in a year, calculated at the current market) prices in terms of rupees (money).

Three Important Methods for Measuring National Income

There are three techniques to compute national income:

- Income Method
- Product/ Value Added Method
- Expenditure Method

Income Method

National income is calculated using this method as a flow of factor incomes. Labor, capital, land, and entrepreneurship are the four main components of production. Labour is compensated with wages and salaries, money is compensated with interest, the land is compensated with rent, and entrepreneurship is compensated with profit.

Furthermore, certain self-employed individuals, such as doctors, lawyers, and accountants, use their own labour and capital. Their earnings are classified as mixed-income. NDP at factor costs is the total of all of these factor incomes.
National Income is calculated as a flow of income in this case.
NI can be calculated as follows:

Employee compensation + Operating surplus (w + R + P + I) + Net income + Net factor income from overseas = Net national income.

Where,
Wage stands for wage and salaries
R stands for rental income.
P stands for profit.
I stand for mixed-income.

Product/ Value Added Method

National income is calculated using this method as a flow of goods and services. During a year, we determine the monetary value of all final goods and services generated in an economy. The term "final goods" refers to goods that are consumed immediately rather than being employed in a subsequent manufacturing process.

Intermediate goods are goods that are used in the manufacturing process. Because the value of intermediate products is already included in the value of final goods, we do not count the value of intermediate goods in national income; otherwise, the value of goods would be double-counted.

To avoid duplicate counting, we can use the value-addition approach, which calculates value-addition (i.e., the value of the end good plus the value of the intermediate good) at each stage of production and then adds them together to get GDP.

The sum-total is the GDP at market prices since the money value is measured at market prices. The methods outlined before can be used to convert GDP at market price.

The flow of goods and services is used to calculate national income.

NI can be calculated as follows:

G.N.P. - COST OF CAPITAL – DEPRECIATION – INDIRECT TAXES = NATIONAL INCOME

Expenditure Method

National income is calculated using this method as a flow of expenditure. The gross domestic product (GDP) is the total of all private consumption expenditures. Government consumption expenditure, gross capital formation (public and private), and net exports are all factors to consider (Export-Import).

As said above, the flow of expenditure is used to calculate national income.

The Expenditure technique can be used to calculate NI as follows:

NationalIncome+NationalProduct+NationalExpenditure=National Income+National Product+National Expenditure=National Expenditure.