UNIT-IV MACROECONOMIC MEASURES OF PERFORMANCE

Macroeconomic Measures of Performance

National Income and its Components

1. **Gross National Product (GNP):**
   - The total value of all goods and services produced by a country's residents, regardless of where they are located.
   - **Formula:** GNP = GDP + Net income from abroad.
2. **Net National Product (NNP):**
   - GNP minus depreciation (the loss of value of capital goods over time).
   - **Formula:** NNP = GNP - Depreciation.
3. **Gross Domestic Product (GDP):**
   - The total value of all goods and services produced within a country's borders.
   - **Formula:** GDP = C + I + G + (X - M), where C is consumption, I is investment, G is government spending, X is exports, and M is imports.
4. **Net Domestic Product (NDP):**
   - GDP minus depreciation.
   - **Formula:** NDP = GDP - Depreciation.

Consumption Function

1. **Definition:** The relationship between total consumption and gross national income.
2. **Keynesian Consumption Function:** $C = a + bY$, where C is total consumption, a is autonomous consumption, b is the marginal propensity to consume (MPC), and Y is national income.

Investment

1. **Definition:** Expenditure on capital goods that will be used for future production.
2. **Types:** Business investment (new equipment, buildings), residential investment (new houses), inventory investment (changes in stocks).

Simple Keynesian Model of Income Determination and the Keynesian Multiplier

1. **Income Determination:** Output (income) is determined by aggregate demand.
   - **Equation:** $Y = C + I + G + (X - M)$.

2. **Keynesian Multiplier:** The ratio of the change in national income to the initial change in autonomous spending.
    - **Formula:** Multiplier = 1 / (1 - MPC).

Government Sector

1. **Taxes:**
    - Compulsory payments to the government.
    - Impact: Reduces disposable income, thus affecting consumption.
2. **Subsidies:**
    - Financial assistance from the government to encourage production or consumption of certain goods.
    - Impact: Lowers production costs or prices for consumers.

External Sector

1. **Exports:**
    - Goods and services sold to other countries.
    - Positive contribution to GDP.
2. **Imports:**
    - Goods and services purchased from other countries.
    - Negative contribution to GDP (subtracted in GDP calculation).