National Income

The important concepts of national income are:
1. Gross Domestic Product (GDP)
2. Gross National Product (GNP)
3. Net National Product (NNP) at Market Prices
4. Net National Product (NNP) at Factor Cost or National Income
5. Personal Income
6. Disposable Income

1. **Gross Domestic Product (GDP):** Gross Domestic Product (GDP) is the total market value of all final goods and services currently produced within the domestic territory of a country in a year.

4 things must be noted regarding this definition:
   a. It measures the market value of annual output of goods and services currently produced. This implies that GDP is a monetary measure.
   b. For calculating GDP accurately, all goods and services produced in any given year must be counted only once so as to avoid double counting. So, GDP should include the value of only final goods and services and ignores the transactions involving intermediate goods.
   c. GDP includes only currently produced goods and services in a year. Market transactions involving goods produced in the previous periods such as old houses, old cars, factories built earlier are not included in GDP of the current year.
   d. GDP refers to the value of goods and services produced within the domestic territory of a country by nationals or non-nationals.

2. **Gross National Product (GNP):** Gross National Product is the total market value of all final goods and services produced in a year. GNP includes net factor income from abroad whereas GDP does not. Therefore,
   GNP = GDP + Net factor income from abroad.
   Net factor income from abroad = factor income received by Indian nationals from abroad – factor income paid to foreign nationals working in India.

3. **Net National Product (NNP) at Market Price:** NNP is the market value of all final goods and services after providing for depreciation. That is, when charges for depreciation are deducted from the GNP we get NNP at market price. Therefore
   NNP = GNP – Depreciation
   Depreciation is the consumption of fixed capital or fall in the value of fixed capital due to wear and tear.

4. **Net National Product (NNP) at Factor Cost (National Income):** NNP at factor cost or National Income is the sum of wages, rent, interest and profits paid to factors for their contribution to the production of goods and services in a year. It may be noted that:
   NNP at Factor Cost = NNP at Market Price – Indirect Taxes + Subsidies.

5. **Personal Income:** Personal income is the sum of all incomes actually received by all individuals or households during a given year. In National Income there are some income, which is earned but not actually received by households such as Social Security contributions, corporate income taxes and undistributed profits. On the other hand there are income (transfer payment), which is received but not currently earned such as old age pensions, unemployment doles, relief payments, etc. Thus, in moving from national income to personal income we must subtract the incomes earned but not received and add incomes received but not currently earned. Therefore,
   Personal Income = National Income – Social Security contributions – corporate income taxes – undistributed corporate profits + transfer payments.

6. **Disposable Income:** From personal income if we deduct personal taxes like income taxes, personal property taxes etc. what remains is called disposable income. Thus,
   Disposable Income = Personal income – personal taxes.
   Disposable Income can either be consumed or saved. Therefore, Disposable Income = consumption + saving.

Measurement of National Income

Production generate incomes which are again spent on goods and services produced. Therefore, national income can be measured by three methods:
1. Output or Production method
2. Income method, and
3. Expenditure method.

1. Output or Production Method: This method is also called the value-added method. This method approaches national income from the output side. Under this method, the economy is divided into different sectors such as agriculture, fishing, mining, construction, manufacturing, trade and commerce, transport, communication and other services. Then, the gross product is found out by adding up the net values of all the production that has taken place in these sectors during a given year.
In order to arrive at the net value of production of a given industry, intermediate goods purchase by the producers of this industry are deducted from the gross value of production of that industry. The aggregate or net values of production of all the industry and sectors of the economy plus the net factor income from abroad will give us the GNP. If we deduct depreciation from the GNP we get NNP at market price. NNP at market price – indirect taxes + subsidies will give us NNP at factor cost or National Income.
The output method can be used where there exists a census of production for the year. The advantage of this method is that it reveals the contributions and relative importance and of the different sectors of the economy.

2. Income Method: This method approaches national income from the distribution side. According to this method, national income is obtained by summing up of the incomes of all individuals in the country. Thus, national income is calculated by adding up the rent of land, wages and salaries of employees, interest on capital, profits of entrepreneurs and income of self-employed people.
This method of estimating national income has the great advantage of indicating the distribution of national income among different income groups such as landlords, capitalists, workers, etc.

3. Expenditure Method: This method arrives at national income by adding up all the expenditure made on goods and services during a year. Thus, the national income is found by adding up the following types of expenditure by households, private business enterprises and the government: -
(a) Expenditure on consumer goods and services by individuals and households. This is called personal consumption expenditure denoted by C.
(b) Expenditure by private business enterprises on capital goods and on making additions to inventories or stocks in a year. This is called gross domestic private investment denoted by I.
(c) Government's expenditure on goods and services i.e. government purchases denoted by G.
(d) Expenditure made by foreigners on goods and services of the national economy over and above what this economy spends on the output of the foreign countries i.e. exports – imports denoted by
(X – M). Thus,
GDP = C + I + G + (X – M).

Difference: between GDP & GNP
Gross Domestic Product (GDP) and Gross National Product (GNP) are two most frequently used economic indicators to measure the strength of economy. The main difference between GDP and GNP is that GDP refers to the market value of goods or services produced in a country excluding foreign production in a given period of time, normally a year. On the other hand, GNP stands for the same meaning as GDP but GNP includes the elements of foreign income by domestic citizens, wherever they are living, as well.

GDP:
Gross Domestic Product or simply GDP means the market value of all the goods, products, and services produced with in a county during a specific period, normally the financial year of a country. GDP is the aggregate demand in an economy. In short, GDP is the total of output of all sectors of the economy that are: agriculture, mining, etc. (primary sector); manufacturing and construction (secondary sector); and tertiary sector (services). GDP measures products only produced domestically. GDP is regarded as the most important factor in the national economy as the economic growth that is the one of the major economic objectives of any government is normally calculated as GDP. Along with Gross National Product, National Income, and Net National Product, GDP is also a measure that can be used to calculate the size of an economy. The factors involved in the calculation of GDP are the amount of consumption, investment, government spending, exports and imports in an economy for a fixed time period (quarterly or yearly). GDP stands for only those products and services that are produced in the territories of the country. The formula of GDP is GDP = C + I + G + (X-M).

GNP:
Gross National Product or simply (GNP) referrers to the GDP plus any income earned by resident of a country from overseas investment, minus income earned by overseas residents with the domestic economy. In short, we can say that GNP is the **production of the citizens of a country only, wherever they are living**. The formula of GNP is GNP = GDP + Income earned by Nation from Other countries – Income earned by foreigners from domestic market.

The national income data have the following importance:

1. For the Economy:
National income data are of great importance for the economy of a country. The national income data are regarded as accounts of the economy, which are known as social accounts. These refer to net national income and net national expenditure, which ultimately equal each other.
Social accounts tell us how the aggregates of a nation's income, output and product result from the income of different individuals, products of industries and transactions of international trade. Their main constituents are inter-related and each particular account can be used to verify the correctness of any other account.

2. National Policies:
National income data form the basis of national policies such as employment policy, because these figures enable us to know the direction in which the industrial output, investment and savings, etc. change, and proper measures can be adopted to bring the economy to the right path.

3. Economic Planning:
In the present age of planning, the national data are of great importance. For economic planning, it is essential that the data pertaining to a country's gross income, output, saving and consumption from different sources should be available. Without these, planning is not possible.

4. Economic Models:
The economists propound short-run as well as long-run economic models or long-run investment models in which the national income data are very widely used.

5. Research:
The national income data are also used by the research scholars of economics. They make use of the various data of the country's input, output, income, saving, consumption, investment, employment, etc., which are obtained from social accounts.

6. Per Capita Income:
National income data are significant for a country's per capita income which reflects the economic welfare of the country. The higher the per capita income, the higher the economic welfare of the country.

7. Distribution of Income:
National income statistics enable us to know about the distribution of income in the country. From the data pertaining to wages, rent, interest and profits, we learn of the disparities in the incomes of different sections of the society. Similarly, the regional distribution of income is revealed. It is only on the basis of these that the government can adopt measures to remove the inequalities in income distribution and to restore regional equilibrium. With a view to removing these personal and regional disequilibrium, the decisions to levy more taxes and increase public expenditure also rest on national income statistics.