

National Income

National Income \Rightarrow National Income means the value of goods and services produced by a country during a financial year.

Thus, it is the net result of all economic activities of any country during a period of ~~of~~ one year and is valued ~~in~~ in terms of ~~the~~ money.

The progress of a country can be determined by the growth of the national income of the country.

There are two national income definitions

- 1) Traditional definition.
 - 2) Modern definition
- 1) Traditional definition \Rightarrow According to Marshall
- "The labor and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterials including service of all kinds. This is the true net annual income or revenue of the country or national dividend."

2) Modern national income definition \Rightarrow Simon Kuznetz defines National as "The net output of commodities and services flowing during the year from the country's productive system in the hands of the ~~the~~ ultimate consumers."

□ Concepts of national income \Rightarrow

1) GNP (Gross National product) - GNP refers to all final goods and services produced by the nationals/citizens of a country regardless of where they produce it.

Thus output produced by a nation's factors of production no matter where it takes place.

GNP includes the economic activities of all the citizens of a Nation whether operating within the country or outside it.

GNP is estimated by summing GDP and Net factor income from Abroad (NFIA).

NFIA is the aggregate income that a country's citizens and companies earn ~~abroad~~ abroad, less the aggregate income that foreign citizens and overseas companies earned in that country. It is also known as Net foreign factor income (NFFI).

$$\text{GNP} = \text{GDP} + \text{NFIA} \quad \text{--- (1)}$$

(2) GDP (^{Gross} National domestic product) \Rightarrow GDP is the money value of all final goods and services produced by the factors of production within the domestic territory/border of a country during an accounting year.

GDP is geographically focussed, it includes only output produced within a nation's borders regardless of whose factors are used. Thus factors of production (labor, capital, land, management, entrepreneurship) may be owned by anyone (citizens or foreigners).

(3) NDP (Net domestic product) \Rightarrow while calculating GDP no provision is made for depreciation allowance (also called capital consumption allowance) in such a situation GDP will not reveal complete flow of goods and services through various factors.

So, when depreciation allowance is subtracted from GDP, we get Net domestic product.

$$\text{NDP} = \text{GDP} - \text{Depreciation} \quad \text{--- (11)}$$

or, $\text{GDP} = \text{NDP} + \text{Depreciation}$

(4) NNP (Net National product) \Rightarrow NNP is the market value of all final goods and services after allowing for depreciation and/or replacement). It is also called National income at market price.

When charge for depreciation are deducted from the GNP, NNP is obtained, thus

$$NNP_{MP} = GNP - \text{Depreciation} \quad \text{--- (iii)}$$

$$\text{or, } GNP = NNP + \text{Depreciation}$$

It can also found out by the adding the net factor income from abroad to the net domestic product.

$$NNP = NDP + NFIA \quad \text{--- (iv)}$$

\therefore $GNP = GDP + NFIA$

and $NDP = GDP - \text{Depreciation}$

\therefore $GNP = NDP + \text{Depreciation} + NFIA$

$$GNP = GDP + NFIA \quad \text{--- from equation (i)}$$

$$\text{or, } NNP + \text{depreciation} = GDP + NFIA$$

$$\text{or, } NNP + \text{depreciation} = NDP + \text{depreciation} + NFIA$$

$$\therefore NNP = NDP + NFIA$$

□ National Income (NI) \Rightarrow National Income is also known as National Income at factor-cost.

National Income at Factor Cost means The Sum of all income earned by resources suppliers for their contribution of land, labor, capital and organization ability which goes into the year's net production.

Hence, The Sum of the income received by factors of production in the form of rent, wages, interest and profit is called National Income.

Mathematically —

$$NI_{FC} = \text{MNP} + \text{subsidies} - \text{indirect taxes}$$

$$\text{or, } NI = \text{GNP} - \text{depreciation} + \text{subsidies} - \text{indirect taxes}$$

□ PI (Personal Income) \Rightarrow PI is the total income which is actually received by individuals or households in a country during the year from all resources (such as Salaries, wages and bonus received from employment or self employment; dividends and distribution received from investment etc) before direct taxes —

$$PI = \text{National Income} - \text{undistributed corporate profit} - \text{profit tax} - \text{social securities contribution} + \text{Transfer payment} + \text{interest on public debt}$$