

Dr.SNS RAJALAKSHMI COLLEGE OF ARTS AND SCIENCE

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**DEPARTMENT OF COMMERCE WITH
INFORMATION TECHNOLOGY**

MANAGERIAL ECONOMICS
National Income

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NATIONAL INCOME

National Income refers to the total monetary value of all final goods and services produced by a country's residents within a specific period, usually one financial year. It acts as a key indicator of a nation's economic health and development. It reflects the productive capacity and income-generating ability of the economy.

Policymakers, economists, and analysts rely on national income data to make informed decisions on budgeting, planning, and economic reforms. National income is crucial for understanding living standards, resource allocation, and income distribution in a country.

NATIONAL INCOME MEANING

National Income denotes the total worth of all final goods and services generated within a country during a specific time frame, typically over the course of one financial year.

- From a macroeconomic perspective, national income plays a central role in measuring the economic performance and prosperity of a nation.
- It is utilised in evaluating per capita income, understanding inequality, and comparing growth across countries. It also forms the basis for fiscal policy formulation, taxation, and welfare schemes.
- Globally, institutions like the World Bank, the IMF, and the United Nations rely on national income statistics to assess global economic trends and design development frameworks.
- In India, agencies such as the National Statistical Office (NSO) under the Ministry of Statistics and Programme Implementation (MoSPI) handle national income estimation.

NATIONAL INCOME COMPONENTS



National income is comprised of various components that reflect the flow of money within an economy. These components not only show how income is generated but also where it is spent or invested. The primary components include:

- **Consumption (C):** Consumption refers to the total spending by households on goods and services for their personal use.
- **Investment (I):** Investment refers to capital formation — the creation of new assets that contribute to future production. It includes business expenditure on machinery, tools, buildings, inventory accumulation, and residential construction.
- **Government Spending (G):** This includes all expenditure by central, state, and local governments on: public goods and services, salaries of government employees, welfare does not include transfer payments (like pensions or unemployment benefits), as these do not correspond to the production of goods or services. programs and subsidies.

NATIONAL INCOME COMPONENTS

- **Net Exports (X-M):** This is the difference between a country's exports and imports. A positive net export (trade surplus) adds to national income, while a negative net export (trade deficit) reduces it.
- **Factor Income:** Additionally, factor incomes (wages, rent, interest, profits) contribute to National Income at Factor Cost, adjusted for taxes and subsidies

BASIC CONCEPTS RELATED TO NATIONAL INCOME ACCOUNTING



Basic concepts related to national income accounting provide a foundational understanding of how a nation's economic output and income are measured, offering insights into production, income distribution, and the economy's overall financial health.

Gross Domestic Product (GDP)

Gross Domestic Product (GDP) represents the total monetary value of all final goods and services produced within a country's geographical boundaries over a year, reflecting the overall economic output and domestic production strength.

Gross National Product (GNP)

GNP includes the value of goods and services produced domestically along with net income earned from abroad, offering a broader picture of national income regardless of geographic production location.

BASIC CONCEPTS RELATED TO NATIONAL INCOME ACCOUNTING



Net Domestic Product (NDP)

NDP is calculated by subtracting depreciation from GDP, indicating the actual value of goods and services produced after accounting for the wear and tear of capital assets used during production.

Net National Product (NNP)

NNP measures a nation's total income by subtracting depreciation from GNP, giving insight into the economy's sustainable income level after considering the reduction in capital stock over time.

Personal Income (PI)

Personal Income refers to the total income individuals receive, including wages, salaries, interest, dividends, and government transfer payments, regardless of whether the income was earned through productive activity or not.

Disposable Personal Income (DPI)

Disposable Personal Income is the portion of personal income left after deducting personal taxes, showing the actual amount available for individuals to spend on goods, services, or save for future needs.

Factor Cost

Factor Cost refers to the total cost incurred on all factors of production—land, labor, capital, and entrepreneurship—involved in creating goods and services. It can be calculated using the formula:

Factor Cost = Market Price – Net Indirect Taxes, where Net Indirect Taxes = Indirect Taxes – Subsidies.

Thus, it can also be expressed as: $\text{Factor Cost} = \text{Market Price} - \text{Indirect Taxes} + \text{Subsidies}$

NATIONAL INCOME MEASUREMENT METHODS

National income is measured through three main approaches to ensure accuracy and completeness, depending on the data availability and the economic structure:

Production Method

Also known as the Output Method, the Production Method calculates national income by summing the value added at each production stage across all sectors of economy (agriculture, manufacturing, services). Value added is computed as total output minus intermediate consumption (raw materials, energy).

For instance, a car manufacturer's value added is the car's final price minus the cost of steel, tires, etc.

$$\text{GDP (Production)} = \Sigma (\text{Value of Output} - \text{Intermediate Consumption})$$

It avoids double-counting and identifies sectoral contributions but requires granular data, making it challenging in economies with large informal sectors.

NATIONAL INCOME MEASUREMENT METHODS

Income Method

The Income Method calculates national income by summing all incomes earned by factors of production (land, labour, capital, entrepreneurship) within a country during a fiscal year. It includes wages (compensation to employees), rent (income from land/assets), interest (returns on capital investments), and profits (business earnings).

Additionally, net factor income from abroad (income earned by residents overseas minus income paid to foreign nationals domestically) is added to derive Gross National Income (GNI). GDP (Income) = Compensation of Employees + Operating Surplus + Mixed Income + Net Indirect Taxes

This method highlights income distribution but may underreport informal sector earnings.

NATIONAL INCOME MEASUREMENT METHODS

Expenditure Method

The Expenditure Method estimates national income by summing the final spending on goods and services by households (consumption), firms (investment), governments, and net exports (exports minus imports).

Expressed as $GDP = C + I + G + (X - M)$, it reflects total aggregate demand within the economy. This approach is widely used due to the availability and reliability of expenditure data.

It offers a clear view of how consumer behaviour, business investments, government policies, and foreign trade collectively drive national output.