Vivekanand College, Kolhapur (Autonomous)

Department of Economics

Subject- Business Economics (Macro)

Topic- National Income and its concepts

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National Income

- **Meaning-**

Income count in some value

Those values are in monetary terms i.e. money value

National Income means-

total money value of all final goods and services produces in a year (Fin. Year).

Money value

All final goods and services

In a year

- **National Income calculates at market price as well as factor cost.**

Factor cost + Taxes = Market price

NI at FC= Land (10)+ Lab (20)+ Cap (15)+ Ent (15)= Price (Rs. 60)

NI at MP= Price (Rs. 60) + Taxes (Rs. 5) = Price (Rs. 65)

Ideally National Income should increase

Economic growth and Employment will increase

GDP- Gross Domestic Product

- Money value of all final goods and services produced in a domestic economy or in a country in a year.
- All final goods and services
- In a domestic economy or country
- In a year

GNP- Gross National Product

- **Money value of all final goods and services produced by normal residents in a year.**
- **Normal residents**

Groups-

A- NR, DT

B- NR, Abroad

C- Non-Resident, DT

Which group/groups come/s under???

GDP-

GNP-

NFIA- Net Factor Income from Abroad

B- NR, Abroad

C- Non-Resident, DT

So, B – C = NFIA

Relationship between GDP & GNP

- GDP + NFIA = GNP

- Gross VS Net

when we minus depreciation from gross value we get Net values

So, GDP- depreciation= NDP

GNP- depreciation= NNP

GDP Formula

$$GDP = C + I + G + NX$$

where:

C- Consumption Expenditure

I- Investment Expenditure

G- Government Expenditure

NX- Net Exports

GNP formula

GNP = C + I + G + NX + NFIA

Or

GNP = GDP + NFIA

where:

NFIA- Net Factor Income from Abroad

NDP & NNP Formula

NDP = GDP- depreciation

NNP = GNP - depreciation

Personal Income

It is the sum of all incomes actually received by all individuals or households during a given year.

Sum total of personal income is not always equal to the national income.

Because several deductions are made out of national income.

Personal Income = National Income

- social security contribution

- Corporate income tax

- Undistributed corporate profit

+ transfer payments

Disposable Income

Disposable income or personal disposable income means the actual income which can be spent on consumption by individuals and households.

In order to arrive at the disposable income, direct taxes, fines, penalties paid by households should be deducted from their personal income.

Disposable Income = Personal Income – Personal Taxes

Whole disposable income is not spent on consumption, a part of it is saved.

Disposable Income = Consumption + Savings

Per-Capita Income

The average income of the people of a country in a particular year is called Per-Capita Income (PCI).

PCI = National Income / Population

PCI at Constant prices = National Income at constant price/ Population

Nominal VS Real National Income

Ex.-

Year	Production	Price
2015	1000	10
2016	980	11 (10% increased)

2015 NI (Y)= 1000 * 10 = 10,000

2016 NI (Y)= 980 * 11 = 10,780

So NI (GDP) increased by Rs. 780 or 7.8%

Nominal VS Real National Income

Ex.-

Year	Production	Price
2015	1000	10
2016	980	11 (10% increased)

2016 NI (Y) (at constant prices) = 980 * 10 = 9800

So NI (GDP) decreased by Rs. 200 or 2.0%

Nominal NI in 2016= Rs. 10780

Real NI in 2016= Rs. 9800