For XAT , CMAT , SNAP , MAT , IIFT Exam

NATIONAL INCOME

- National Income provides a comprehensive measure of the economic activities of a nation. It denotes the country's purchasing power. The growth of an economy is measured by the rate at which its real national income grows over time.
- National income thus serves as an instrument of economic planning.
- National Income means '**The total money value of all final goods and services produced in a country during a particular period of time'**

Basic concepts of national income

- The following are some of the concepts used in measuring national income.
  1. Gross Domestic Product (GDP)
  2. Net Domestic Product (NDP)
  3. Gross National Product (GNP)
  4. Net National Product (NNP)
  5. NNP at factor cost
  6. Personal Income
  7. Disposable Income
  8. Per capita Income
  9. Real Income
  10. GDP deflator

Gross Domestic Product (GDP)

- Gross Domestic Product (GDP) is the value of the all final goods and services produced within the boundary of a nation during a year period. For India, the financial year is from 1st April to 31st March.
- India's GDP is 3rd largest in the world in terms of purchasing power parity(PPP)

Net Domestic Product (NDP)

- Net Domestic Product (NDP) is the GDP calculated after adjusting the weight of the value of 'depreciation'. **NDP = GDP – Depreciation.**
- NDP of an economy has to be always lower than its GDP for the same year

Gross National Product (GNP)

- GNP is the total measure of the flow of final goods and services at market value resulting from current production in a country during a year, including net income from abroad
- The normal formula is **GNP = GDP + Income from Abroad**

  {(**Income from abroad**= Trade balance + Interest on External Loans+ Private Remittance)

  Private remittance= Inflows and outflows on account of private transfer

  Trade balance = Net outcome at the year end of the total import and export.

  Interest on external loans= balance of the inflow of interest payment – Outflow of interest payment}
- In India's case, it has always been negative (due to heavy outflows on account of trade deficits and interest payments on foreign loans). It means, the 'Income from Abroad' is subtracted from India's GDP to calculate its GNP.

  GNP = GDP + (–Income from Abroad)

  (India's GNP is always lower than its GDP)
- GNP at market prices means the gross value of final goods and services produced annually in a country plus net factor income from abroad

Net National Product (NNP)

- Net National Product (NNP) of an economy is the GNP after deducting the loss due to 'depreciation'.

  NNP = GNP – Depreciation

  Or

  NNP = GDP + Income from Abroad – Depreciation.
- This is the purest form of the income of a nation.

NNP at Factor cost

- NNP refers to the market value of output. Whereas NNP at factor cost is the total of income payment made to factors of production. Thus from the money value of NNP at market price, we deduct the amount of indirect taxes and add subsidies to arrive at the net national income at factor cost.

NNP at factor cost = NNP at Market prices – Indirect taxes + Subsidies.

Personal Income

- Personal income is the total income received by the individuals of a country from all sources before payment of direct taxes in a year

Personal Income = National Income–(Social Security Contribution and undistributed corporate profits) + Transfer payments

Disposable Income

- Disposable Income is also known as Disposable personal income. It is the individual's income after the payment of income tax

Disposable Income = Personal income – Direct Tax

Per Capita Income

- The average income of a person of a country in a particular year is called Per Capita Income. Per capita income is obtained by dividing national income by population

Per Capita income = National Income/ Population

Real Income

- Nominal income is national income expressed in terms of a general price level of a particular year in other words, real income is the buying power of nominal income.
- Real income is the income of individuals or nations after adjusting for inflation

GDP deflator

- The GDP deflator is an index of price changes of goods and services included in GDP. It is a price index which is calculated by dividing the nominal GDP in a given year by the real GDP for the same year and multiplying it by 100.

GDP deflator = Nominal GDP/ Real GDP x 100

Gross value added

- Gross value added (GVA) is the measure of the value of goods and services produced in an area, industry or sector of an economy.

GVA = GDP + subsidies - (direct, sales) taxes.

Cost and Price of National Income

Cost

- **Factor cost** - The actual incurred on goods and services that are produced by the firms and industries in an economy is known as factor cost. i.e., cost of capital, interest on loans, raw materials, labour, rent, power, etc
- **Market cost -** 'Market cost' is derived after adding the indirect taxes to the factor cost of the product, it means the cost at which the goods reach the market
- India officially used to calculate its national income at factor cost. Since January 2015, the CSO has switched over to calculating national income at market cost. The market price is calculated by adding the product taxes to the factor cost

Price

- Income can be derived at two prices, constant and current. The difference in the constant and current prices is only that of the impact of inflation

Current prices= constant prices + inflation

Purchasing Power Parity

- A concept related to purchasing power is Purchasing Price Parity (PPP). PPP is an economic theory that estimates the amount that needs to be adjusted to the price of an item
- PPP can be used to compare countries income levels and other relevant economic data concerning the cost of living, or possible rates of inflation and deflation.
- India is the third-largest economy in terms of Purchasing Price Parity (PPP)