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NATIONAL INCOME AND RELATED AGGREGATE

PART 2nd

2. CONCEPTS OF NATIONAL INCOME

FEATURES OF NATIONAL INCOME

National income is broadly defined as the aggregate monetary value of all the final goods and services produced in a country during a year.

Four features of national income are:

(i) National income is counted for a period of one accounting year.

(ii) National income is flow concept.

(iii) We include only final goods and services in the calculation of national income.

(iv) National income is always expressed in terms of monetary value of goods and services.

NATIONAL INCOME AGGREGATES AND CONCEPT

1. GROSS DOMESTIC PRODUCT (GDP) - **Gross domestic product (GDP) is the market value of all the final goods and services produced within the domestic territory of a country during a year.**

(a) Gross Measure - **It measures gross value of the products.**

(b) Market Value - **GDP measures the value of goods and services at their market prices.**

Hence, Market Value = Q X P

(Here, Q = Quantity of a commodity; P = Price of the commodity)

(c) New Production- **GDP includes the value of output produced in the "new" current accounting year only.**

(d) GDP includes only the value of final goods or services.

(e) In Gross Domestic Product, we include only the goods and services produced within the domestic territory of a country.

GDP_{MP} = C + I + G + (X - M)

GDP_{MP} = Gross domestic Product at a market price

C = consumer goods and services

I = Gross private domestic investment

G = Goods and services produced or purchased by the government

(X - M) Exports - Imports or Net Exports

2. GROSS NATIONAL PRODUCT AT MARKET PRICE (GNP_{MP})

Gross National Product at market price is the Gross Domestic Product at market price plus net factor income from abroad.

Thus, $GNP_{MP} = GDP_{MP}$ + NFIA

Here, GNP_{MP} = Gross National Product at market prices

GDP_{MP} = Gross Domestic Product at market prices

NFIA = Net factor income from abroad

NET FACTOR INCOME FROM ABROAD: NFIA

Net factor income from abroad is the difference between the income earned from abroad for rendering factor services by the normal residents of the country to the rest of the world and the income paid for the factor services rendered by non - residents (i.e. foreign residents) in the domestic territory of a country.

3. NET DOMESTIC PRODUCT AT MARKET PRICE (NDP_{MP})

Net Domestic product at market price is the net market value of all the final goods and services produced in the domestic territory of a country during a year. NDP is obtained by subtracting depreciation from GDP.

NDPMP = GDP_{MP} - D (CCA)

Here, NDP_{MP} = Net Domestic Product at market price

GDP_{MP} = Gross Domestic Product at market price

D = Depreciation

CCA = Capital Consumption Allowance

We know that a part of capital goods is used up or consumed in the process of production of goods and services in the economy. This is called depreciation or capital consumption.

4. NET NATIONAL PRODUCT AT MARKET PRICE (NNP_{MP})

Net National Product at market price is the net market value of all the final goods and services produced by the normal residents of a country during a year. It can be calculated in two ways:

(i) $NNP_{MP} = GNP_{MP} - D$

(ii) $NNP_{MP} = NDP_{MP} + NFIA$

5. NET NATIONAL PRODUCT AT FACTOR COST (NNP_{FC})

NNP_{FC} represents the payment made to the factor of production as wages, rent, interest and profits. In short, NI is the sum total of all factor payments. NNP_{FC} or NI can be obtained by subtracting net indirect taxes from net national product at market price.

Net Indirect Taxes Indirect taxes - Subsidies (NIT = IT - S)
NNP_{FC} or NI = NNP_{MP} - IT (Net) Or

NNP_{FC} Or NI = NNP_{MP} - Indirect Taxes + Subsidies

GDP AT CURRENT PRICES (OR NOMINAL GDP) AND GDP AT CONSTANT PRICES (OR REAL GDP)

The total monetary value of all the goods and services produced in the domestic territory of a country during a year, counted on the basis of current market prices of that particular year is known as GDP at current prices or nominal GDP.

The total monetary value of all the goods and services produced in the domestic territory of a country during the year counted on the basis of the prices of a base year, is knows as GDP at constant prices or real GDP.

THE GDP DEFLATOR

The GDP deflator is defined as the ratio of nominal GDP to real GDP.

GDP Deflator = $\dfrac{\text{GDP (Nominal GDP}}{\text{gdp (Real GDP)}}$

CONSUMER PRICE INDEX (CPI)

It measures the general changes in the retail prices of a given basket of commodities which are purchased by the consumer. It is generally expressed in percentage terms. For the construction of CPI we take two years - one is the base year the other as the current year.

CPI = $\dfrac{\text{cost of purchase of the basket of commodities in the current year}}{\text{cost of purchase of the same basket of commodities in the base year}}$ **x 100**

ADVANTAGE OF REAL GDP

(i) GDP at constant prices is a better indicator of economic growth and real development capacity of the economy.

(ii) We can have a correct year to year comparison of the change in the growth of output of the goods and services with the help of real GDP.

(iii) Real GDP is more useful in making comparisons of economic performance among different countries of the world.