

National Income

class-M.A.,2nd sem.

presented by_ Deepa Dwivedi

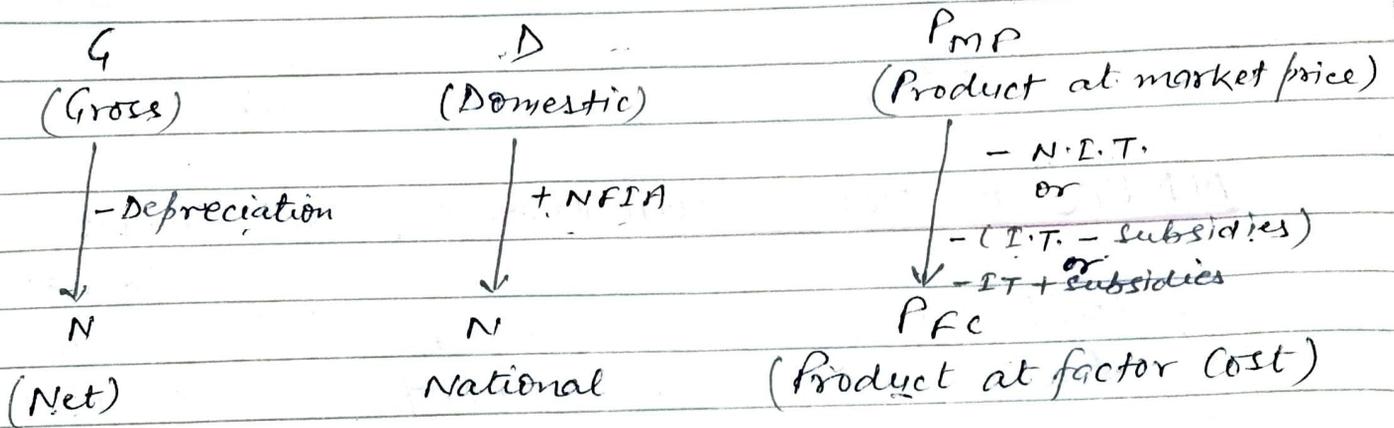
(guest faculty)S.S.in

Economics, Vikram

University, Ujjain.

There are many aggregates in national income accounting. The basic among these is 'Gross Domestic Product at Market price (GDP_{MP})'.

Key formula for aggregates of N.I. -



$NNP_{FC} = \text{National Income}$

GDP_{MP} :- Gross domestic Product at market price is the gross market value of all final goods and services produced within the domestic territory of a country during an accounting year.

GNP_{MP} :- Gross National Product at market price (GNP_{MP}) is the market value of the final goods and services produced by normal residents of a country during an accounting year.

$$GNP_{MP} = GDP_{MP} + \text{Net factor Income from abroad}$$

NNP_{MP} :- Net National Product at Market price (NNP_{MP}) is the market value of the final goods and services produced by normal residents of a country during an accounting year exclusive of

depreciation.

$$NNP_{MP} = GNP_{MP} - \text{Depreciation}$$

NDP_{MP} :- Net domestic product at market price (NDP_{MP}) is the market value of final goods and services produced within the domestic territory of a country during an accounting year; exclusive of depreciation.

$$NDP_{MP} = GDP_{MP} - \text{Depreciation}$$

NDP_{FC} or Net Domestic Income :- Net Domestic Income

Product at Factor Cost (NDP_{FC}) is the sum total of factor incomes (Rent + Profit + wages + Interest) generated within the domestic territory of a country during an accounting year

$$NDP_{FC} = NDP_{MP} - \text{Net Indirect Taxes}$$

$$= NDP_{MP} - \text{Indirect taxes} + \text{Subsidies}$$

NDP_{FC} is also called 'Domestic Income'.

GDP_{FC} :- Gross Domestic Product at factor cost is the sum total of factor incomes generated within the domestic territory of a country, along with consumption of fixed capital, during a year.

$$GDP_{FC} = NDP_{FC} + \text{Depreciation}$$

GNP_{FC} :- Gross national product at factor cost is the sum total of factor incomes earned by

NNP_{FC} :- Net National Product at factor Cost (NNP_{FC}) is the sum total of factor incomes earned by normal residents of a country during the period of an accounting year.

$$NNP_{FC} = NDP_{FC} + NFIA$$

NNP_{FC} is equal to National Income

$$\Rightarrow NNP_{FC} = NATIONAL\ INCOME$$

Que:- Differentiate between Domestic Income and National income.

Ans:-

Basis	Domestic Income	National Income
Nature of concept	Domestic income is a territorial concept as it includes the value of goods produced within the domestic territory of a country.	National income is a national concept as it includes the value of goods produced in the entire world.
Category of producers	It considers all the producers within the domestic territory of the country.	It considers the producers who are normal residents of the country.
NFIA	It does not include NFIA.	It includes NFIA.

National disposable income is the income from all sources available to residents of a country for consumption expenditure or for saving during a year.

$$\text{Net National Disposable Income} = \text{Gross National Disposable income} - \text{Depreciation}$$

$$\begin{aligned} \text{Net National Disposable Income} &= \text{National Income (NNP)} \\ &\quad + \text{Net Indirect taxes} \\ &\quad + \text{Net Current transfers from} \\ &\quad \quad \text{Rest of the world} \\ &= \text{NNP}_{MP} + \text{NCT}_{ROW} \end{aligned}$$

$$\text{Gross National Disposable income} = \text{GNP}_{MP} + \text{NCT}_{ROW}$$

PRIVATE INCOME =

Private income refers to the income which accrues to private sector from all the sources within and outside the country.

Private income includes both factor income as well as transfer income.

$$\begin{aligned} \text{Private income} &= \text{Factor income from Net domestic Product} \\ &\quad \text{accruing to private sector} + \text{NFIA} + \\ &\quad \text{Interest on National Debt} + \text{Current} \\ &\quad \text{transfers from Govt.} + \text{Current transfers} \\ &\quad \text{from Rest of the world.} \end{aligned}$$

$$\begin{aligned} \text{Private income} &= \text{National income (NNP}_{FC}) - \text{income from} \\ &\quad \text{property and entrepreneurship accruing} \\ &\quad \text{to govt. commercial enterprise and} \\ &\quad \text{administrative department} - \text{savings of} \\ &\quad \text{non-departmental enterprises of govt.} \\ &\quad + \text{Interest on National debt} + \text{Net Current} \\ &\quad \text{Transfers from govt.} + \text{Net Current transfers from abroad.} \end{aligned}$$

PERSONAL INCOME

Personal income is the sum total of all the incomes that are actually received by household from all the sources.

Personal income = Private income - Corporate tax - retained earnings (undistributed profit)

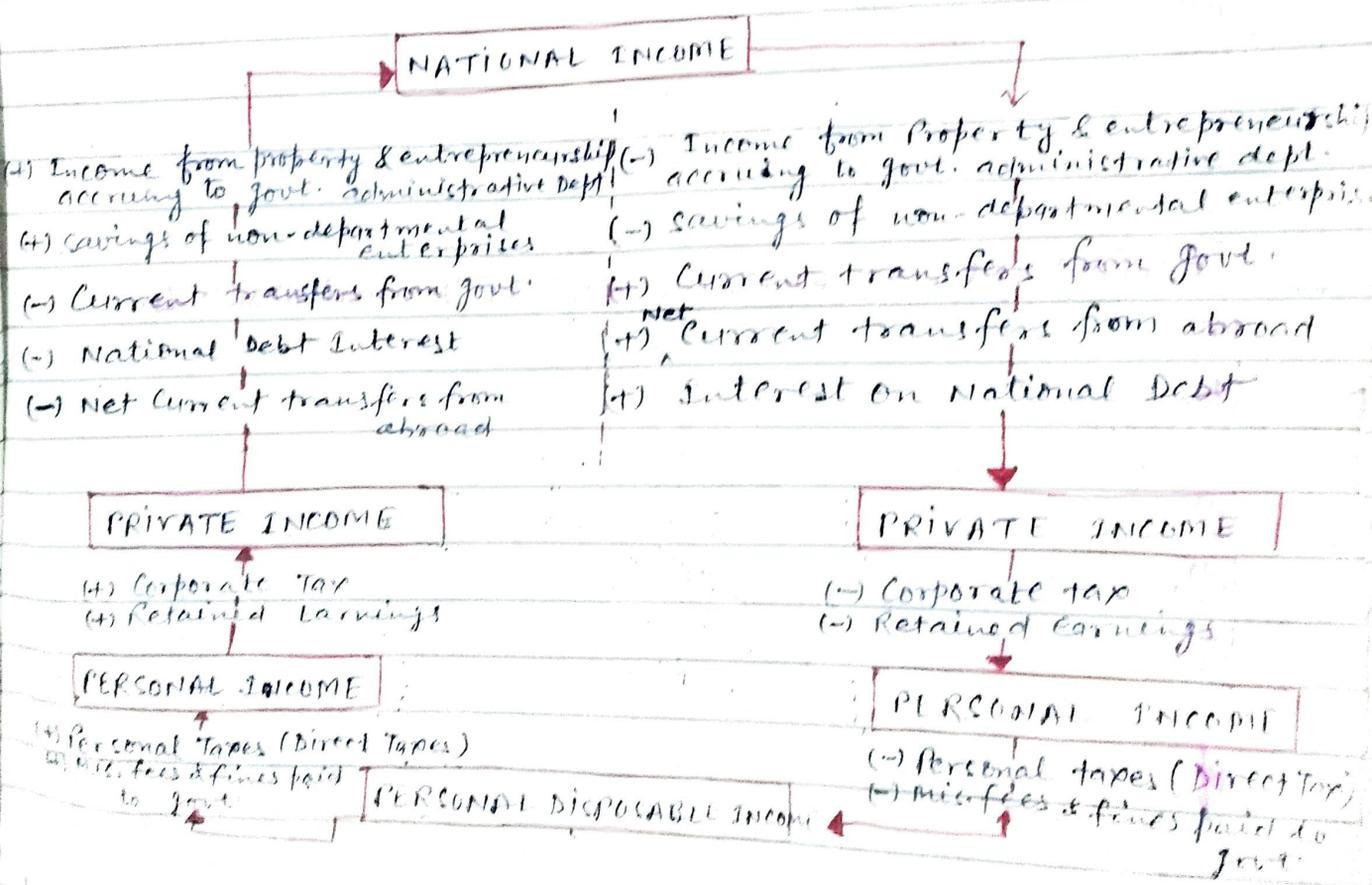
Retained earnings are also called 'corporate saving' or 'savings of corp. sector'.

PERSONAL DISPOSABLE INCOME

Personal disposable

income (PDI) refers to that part of personal income which is actually available at the disposal of households i.e. either to spend or to save.

Personal Disposable income = Personal income - Direct taxes - Miscellaneous fees and fines paid by the households



Differentiate between Personal Income & Private Income

Basis	Personal Income	Private Income
1. Meaning	It refers to the income which accrues to households from all sources.	It refers to the income which accrues to private sector from all sources.
2. Concept	Narrower Concept	Broader Concept
3. Formula	Personal Income = Private Income - Corp. tax - retained earnings	Private income = Personal Income + Corp. tax + Retained Earnings

Important Points :-

(1) :- Domestic territory does not include:

(a). Embassies, consulates and military establishments of a foreign country.

Eg:- Japanese Embassy in India is a part of domestic territory of Japan.

(b) :- International organisations like UNO, WHO etc. located within the geographical boundaries of a country.

(2) :- Followings are not included as 'Normal Residents'.

(a). Foreign Tourists and visitors.

(b). Foreign Staff of Embassies, officials, diplomats and member of armed forces.

(c). International organisations like UNO, WHO, etc.

(d). Employees of international organisations

(e). Crew member of foreign vessels, commercial travellers and ~~sea~~ seasonal workers.

(f). Border workers.

Differentiate between Private income and National Income

Basis	Private Income	National Income
Factor/transfer Income	It includes factor incomes as well as transfer incomes.	It includes only factor incomes.
Public Sector Income	It does not include income of public sector.	It includes income of public sector.

Que:- Mention the situations in which following equations will hold true.

- Ans:-
- (1) $\overset{(NNP_{fc})}{\text{National Income}} = \overset{(NDP_{fc})}{\text{Domestic Income}}$
 - (2) $GDP_{fc} > GDP_{mp}$
 - (3) Private income = Personal Income
 - (4) $NNP_{fc} < NDP_{fc}$
 - (5) Personal Income = ~~Private Income~~ Personal Dispo. Income
 - (6) $GDP_{fc} = GDP_{mp}$

- Ans:-
- (1) when Net Factor Income from Abroad is zero.
 - (2) when subsidies are more than indirect taxes.
 - (3) when corporate tax and retained earnings are zero.
 - (4) when factor income from abroad is less than
 - (5) factor income paid to abroad.
 - (5) when direct taxes and miscellaneous fees and fines are zero.
 - (6) when net indirect taxes are zero.