

NATIONAL INCOME

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National Income

NATIONAL INCOME ARE DATA COLLECTED AND PUBLISHED BY THE GOVERNMENT DESCRIBING THE VARIOUS COMPONENTS OF NATIONAL INCOME AND OUTPUT IN THE ECONOMY.



Gross Domestic Product

GROSS DOMESTIC PRODUCT (GDP) IS THE TOTAL MARKET VALUE OF ALL FINAL GOODS AND SERVICES PRODUCED WITHIN A GIVEN PERIOD BY FACTORS OF PRODUCTION LOCATED WITHIN A COUNTRY.

Final Goods and Services

THE TERM *FINAL GOODS AND SERVICES* REFERS TO GOODS AND SERVICES PRODUCED FOR FINAL USE.

INTERMEDIATE GOODS ARE GOODS PRODUCED BY ONE FIRM FOR USE IN FURTHER PROCESSING BY ANOTHER FIRM.

GDP Versus GNP

GDP IS THE VALUE OF OUTPUT PRODUCED BY FACTORS OF PRODUCTION LOCATED WITHIN A COUNTRY. OUTPUT PRODUCED BY A COUNTRY'S CITIZENS, REGARDLESS OF WHERE THE OUTPUT IS PRODUCED, IS MEASURED BY GROSS NATIONAL PRODUCT (GNP).

MEASUREMENT OF GNP

GNP CAN BE COMPUTED IN THREE WAYS:

THE PRODUCT METHOD : A COMPLETE CENSUS OF ALL PRODUCTS PRODUCED BY DIFFERENT MEMBERS OF A NATION DURING A GIVEN YEAR IS CONSIDERED AND THE SUM OF THESE VALUES GIVES US AN ESTIMATION OF GNP- MONEY VALUE IS TAKEN INTO CONSIDERATION.

THE INCOME APPROACH: A METHOD OF COMPUTING GNP THAT MEASURES THE INCOME—WAGES, RENTS, INTEREST, AND PROFITS—RECEIVED BY ALL FACTORS OF PRODUCTION IN PRODUCING FINAL GOODS.

THE EXPENDITURE METHOD: SUM OF ALL EXPENDITURE INCURRED ON THE COMMODITIES PRODUCED BY THE COUNTRY DURING THE GIVEN YEAR.

Expenditure categories:

Personal consumption expenditures (C)—household spending on consumer goods.

GROSS PRIVATE DOMESTIC INVESTMENT (I)—
SPENDING BY FIRMS AND HOUSEHOLDS ON
NEW CAPITAL: PLANT, EQUIPMENT,
INVENTORY, AND NEW RESIDENTIAL
STRUCTURES

Expenditure categories:

**GOVERNMENT CONSUMPTION AND GROSS
INVESTMENT (G)**

**NET EXPORTS (EX – IM)—NET SPENDING BY THE REST
OF THE WORLD, OR EXPORTS (EX) MINUS IMPORTS (IM)**

The Expenditure Approach

THE EXPENDITURE APPROACH CALCULATES GNP BY ADDING TOGETHER THESE FOUR COMPONENTS OF SPENDING. IN EQUATION FORM:

$$GDP = C + I + G + (X - M)$$

DIFFICULTIES IN MEASURING GNP

1. POSSIBILITY OF DOUBLE COUNTING
2. PERSONAL SERVICES
3. OUTPUT MAY NOT BE SOLD IN THE MARKET
4. CAPITAL GAINS AND LOSSES ARE TO BE EXCLUDED
5. DATA PROBLEMS
6. INFLATION GIVE A FALSE IMPRESSION OF GROWTH IN NI