**topic**

**concept of national income**

### Sub Topic

### 1-National Income

### 2-DEFINATION

### 3-MEASUREMENT

**for**

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# E CONTENT (TEXT)

# Concept of National Income

National income means the value of goods and [services](https://www.toppr.com/guides/business-studies/business-services/nature-and-types-of-services/) produced by a country during a [financial year](https://www.toppr.com/guides/accountancy/financial-statements/balance-sheet-and-opening-entry/). Thus, it is the net result of all economic activities of any country during a period of one year and is valued in terms of [money](https://www.toppr.com/guides/economics/money-and-credit/all-about-money-and-credit/). National income is an uncertain term and is often used interchangeably with the national dividend, national output, and national [expenditure](https://www.toppr.com/guides/economics/national-income-accounting/expenditure-method-and-income-method/). We can understand this concept by understanding the national income definition.

### ****Browse more Topics under National Income****

* [Measurement of National Income](https://www.toppr.com/guides/fundamentals-of-economics-and-management/national-Income/measurement-of-national-income/)
* [The concept of Consumption, Saving, and Investment](https://www.toppr.com/guides/fundamentals-of-economics-and-management/national-income/concept-of-consumption-saving-and-investment/)
* Economic Growth
* Economic Fluctuations

## ****Concept of National Income****

The National [Income](https://www.toppr.com/guides/general-awareness/economy/national-income/) is the total amount of income accruing to a country from [economic activities](https://www.toppr.com/guides/commercial-knowledge/business-and-commercial-knowledge/what-are-economic-activities/) in a years time. It includes payments made to all resources either in the form of [wages](https://www.toppr.com/guides/fundamentals-of-laws-and-ethics/payment-of-wages-act/definition-of-wages-and-other-important-terms/), interest, rent, and profits.

The progress of a country can be determined by the [growth](https://www.toppr.com/guides/biology/plant-growth-and-development/growth-and-its-phases/) of the national income of the country

### ****National Income Definition****

There are two National Income Definition

* Traditional Definition
* Modern Definition

### ****Traditional Definition****

**According to Marshall:** “The labor and capital of a country acting on its [natural resources](https://www.toppr.com/guides/fundamentals-of-economics-and-management/indian-economy-cma/natural-resources-and-economic-development/) produce annually a certain net aggregate of commodities, [material](https://www.toppr.com/guides/science/sorting-materials-into-groups/properties-of-materials/) and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend.”

The definition as laid down by Marshall is being criticized on the following grounds.

Due to the varied category of [goods and services](https://www.toppr.com/guides/business-economics-cs/overview-of-indian-economy/goods-and-services-tax-gst/), a correct estimation is very difficult.

There is a chance of double counting, hence National Income cannot be estimated correctly.

**For example,** a product runs in the supply from the producer to distributor to [wholesaler](https://www.toppr.com/guides/business-studies/internal-trade/internal-trade-and-wholesale-trade/) to [retailer](https://www.toppr.com/guides/business-studies/internal-trade/retail-trade/) and then to the ultimate consumer. If on every movement commodity is taken into consideration then the value of National Income increases.

Also, one other reason is that there are products which are produced but not marketed.

**For example,** In an [agriculture](https://www.toppr.com/guides/geography/agriculture/introduction-to-agriculture/)-oriented country like India, there are commodities which though produced but are kept for self-consumption or exchanged with other commodities. Thus there can be an underestimation of National Income.

Read more about [*Income and Expenditure Method here*](https://www.toppr.com/guides/economics/national-income-accounting/expenditure-method-and-income-method/) in detail

**Simon Kuznets** defines national income as “the net output of commodities and services flowing during the year from the country’s productive system in the hands of the ultimate [consumers](https://www.toppr.com/guides/business-studies/consumer-protection/consumer-rights-responsibilities/).”

**Following are the Modern National Income definition**

* GDP
* GNP

### ****Gross Domestic Product****

The total value of goods produced and services rendered within a country during a year is its [Gross Domestic Product.](https://www.toppr.com/guides/economics/national-income-accounting/goods-prices-gdp-and-welfare/)

Further, GDP is calculated at market price and is defined as GDP at market prices. Different constituents of GDP are:

1. Wages and salaries
2. Rent
3. Interest
4. Undistributed profits
5. Mixed-income
6. Direct taxes
7. Dividend
8. Depreciation

### ****Gross National Product****

For [calculation of GNP](https://www.toppr.com/guides/economics/national-income-accounting/some-macroeconomic-identities/), we need to collect and assess the [data](https://www.toppr.com/guides/economics/organisation-of-data/raw-data-classification-of-data-and-variables/) from all productive activities, such as agricultural produce, wood, minerals, commodities, the contributions to production by transport, communications, insurance companies, professions such (as lawyers, doctors, teachers, etc). at market prices.

It also includes net income arising in a country from abroad. Four main constituents of GNP are:

1. Consumer goods and services
2. Gross private domestic income
3. Goods produced or services rendered
4. Income arising from abroad.

### ****GDP and GNP on the basis of Market Price and Factor Cost****

### ****a) Market Price****

The Actual transacted price including indirect taxes such as GST, Customs duty etc. Such taxes tend to raise the prices of goods and services in the economy.

### ****b) Factor Cost****

It Includes the cost of factors of production e.g. interest on capital, wages to labor, rent for land profit to the stakeholders. Thus services provided by service providers and goods sold by the producer is equal to revenue price.

**Alternatively,**

Revenue Price (or Factor Cost) = Market Price **(net of)** Net Indirect Taxes

Net Indirect Taxes = Indirect Taxes Net of Subsidies received

Hence,

Factor Cost  shall be equal to

(Market Price) LESS (Indirect Taxes ADD Subsidies)

### ****Net Domestic Product****

The net output of the country’s economy during a year is its NDP. During the year a country’s capital assets are subject to wear and tear due to its use or can become obsolete.

Hence, we deduct a percentage of such investment from the GDP to arrive at NDP.

**So NDP=GDP at factor cost LESS Depreciation.**

The Accumulation of all factors of income earned by residents of a country and includes income earned from the county as well as from abroad.

Thus, National Income at Factor Cost  shall be equal to

**NNP at Market Price LESS (Indirect Taxes ADD Subsidies)**

## ****Question on National Income****

**Q. Enumerate the various methods of measuring National Income?**

**Ans.** There are various methods for measuring National Income:

1. Gross Domestic Product (GDP)
2. Gross National Product (GNP)
3. Net National Product (NNP)
4. Net Domestic Product (NDP)
5. National Income at Factor Cost (NIFC)
6. Transfer Payments
7. Personal Income
8. Disposable Personal Income

**KEY WORDS:**

**1-GDP**

**2-GNP**

**3-NNP**

**4-NDP**

**5-NIFC**

**NOTES:**

**1-Dilard D – Keynes Ka Arthashastra**

**2-Ghosh Alak – Indian Economy**

**3-Growther G – An Outline Of Money**

**4-Samuelson P.A. – Economics**

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