Economics
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National Income

According to Central Statistical Organization, "National income is the sum total of factor incomes earned by normal residents of a country in the form of wages, rent, interest and profit in an accounting year."

National Income Concepts

A. Gross Domestic Product

Gross Domestic Product (GDP) refers to total market money value of all final goods and services produced in an economy over a period of one year. In India, this fiscal or financial year is from 1st April to 31st March.

In calculation of GDP only final output of such goods and services is considered. Counting of final goods is necessary to avoid multiple (double or triple) counting of raw materials, intermediate products, and final products.

Example - In an automobile industry, value of automobiles already includes the value of the steel, glass, tyres, engine and other components that have been used to make them.

Relevant definitions of these are as following:
a) Final Goods and Services: Goods and Services purchased for final use.
b) Intermediate Goods/Raw Materials: Products used as input in the production of some other product.

Types of GDP

GDP can be divided into:

1. Real GDP - Real GDP refers .to the current year production of goods and services valued at base year prices. Such base year prices are constant prices.

Nominal GDP - Nominal GDP refers to current year production of final goods and services valued at current year prices.

B. Gross National Product (GNP)

GNP is a measure of the value of output produced by the nationals of a country irrespective of the geographical boundaries of a nation. It refers to the output of Indian citizens both within India and in all the countries of world.

GNP = GDP '+ Net income inflow from abroad - Net income outflow to foreign countries.

GDP and GNP are measured on the basis of Market Price and Factor Cost.

- Market Price:

It refers to the actual transacted price and it includes indirect taxes such as custom duty, excise duty, sales tax, service tax, etc. (impending Goods and Services Tax):

These taxes tend to raise the prices of the goods in an economy.

- Factor Cost:

It refers to cost of factors of production.

- Net National Product (NNP)

NNP is the value of the total output of the economy calculated without double counting, this is GNP, less

Allowance for depreciation (D) of the capital assets used in the production process.

Hence NNP= GNP- Depreciation

In the process of production a country uses several capital assets such as machinery, equipment, automobiles, etc.

The assets like machines face wear and tear over a period of time. Its value reduces. This is known as depreciation.

. Net Domestic Product (NDP)

Net Domestic Product (NDP) is the GDP calculated after adjusting the value of 'depreciation'. This basically, net form of the GDP, i.e. GDP minus the total value of the 'wear and tear' (depreciation) that happened in the assets while the goods and services were being produced.

NDP = GDP – Depreciation

Net= Gross – Depreciation

Market Cost= Factor Cost + Indirect Taxes – Subsidies

National Income= Net National Product (at Factor Price) (National Income)/ (Population) = Per Capita Income
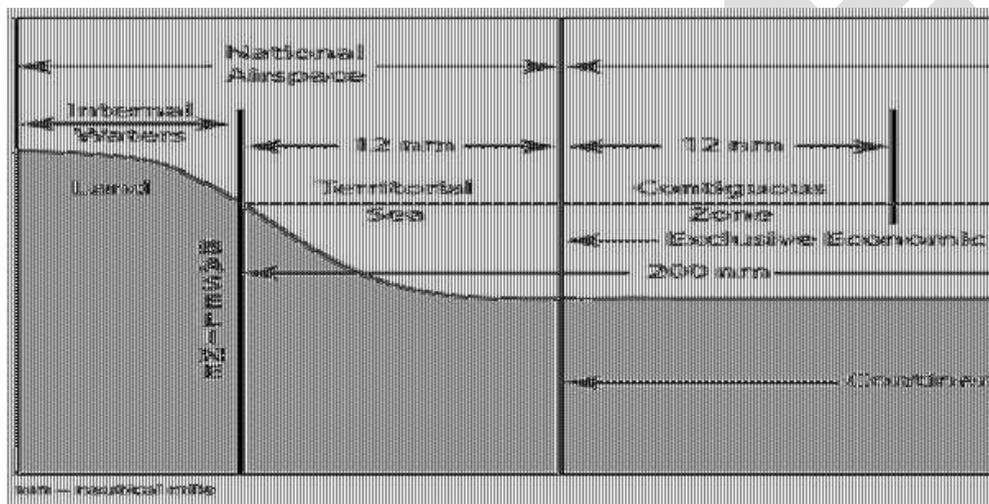
National Income at Factor Cost = NNP at Market Cost - Indirect Taxes + Subsidies

In India, and many developing countries across the world, National Income is measured at factor cost instead of market prices. Some of the reasons for the same is lack of uniformity in taxes, goods not being printed with their prices, etc.

. Factors of Production

Normally, the more efficient and richer the resources, higher will be the level of National Income or GNP

(a) Land

Resources like coal, iron and timber are essential for heavy industries so that they must be available and accessible. In other words, the geographical location of these natural resources affects the level of GNP.

(b) Capital

Capital is generally determined by investment. Investment in turn depends on other factors like profitability. Political stability, etc.

(c) Labour

The quality or productivity of human resources is more important than quantity. Manpower planning and education affect the productivity and production capacity of an economy

(d) Entrepreneur

(e) Technology

This factor is more important for Nations with fewer natural resources. The development in technology is affected by the level of invention and innovation in production.

(f) Government

Government can help to provide a favourable business environment for investment. It provides law and order, regulations.

(g) Political Stability

A stable economy and political system helps in appropriate allocation of resources Wars, strikes and social unrests will discourage investment and business activities

Measurement of National Income

National Income calculated by three ways:

1.income method

2.production method

3.expenditure method

GDP deflator = (Nominal GDP/Real GDP) * 100

The main difference between nominal GDP and real GDP is the adjustment for inflation. Since nominal GDP is calculated using current prices, it does not require any adjustments for inflation.

GDP is calculated using base year prices, it known as real GDP

Note- In 1876, DadaBhai Naoroji was the first person to prepare estimates of national income and per capita income for the year 1867-68. DadaBhai Naoroji estimated national income at Rs 340 crore and per capita income of Rs 20.

Prof. Prasanta Chandra Mahalanobis

"Statistics must have a clearly defined purpose, one aspect of which is scientific advancement and the other human welfare and national development." Prof. Prasanta Chandra Mahalanobis is also known as the father of Indian Statistics.

Note- 2018-2019. India's per capita income was [1] 1,25,408. This represented a growth rate of 10.0% over the previous year.

The term was coined by Indian economist Raj Krishna. It suggests that the low growth rate of India, a country with mostly Hindu population was in a sharp contrast to high growth rates in other Asian countries, especially the East Asian Tigers, which were also newly independent.