

National Income: Concepts

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What is Gross Domestic Product (GDP)

- Gross domestic product is the money value of all final goods and services produced within the domestic territory of a country during a year.

$$\text{GDP}=(P*Q)$$

where p=price of goods and services
q=quantity of goods and services.

What is Gross National Product (GNP)

GNP is the total market value of all goods and services produced by the residents of a country, wherever their temporary base might be (within the country or in a foreign location).

In other words GNP is the total market value of all final goods and services produced annually in a country plus net factor income from abroad (NFIA)

$$\text{GNP} = \text{GDP} + \text{NFIA}$$

or

$$\text{GDP} = \text{GNP} - \text{NFIA}$$

- What is NFIA?

The excess of factor incomes earned by a country from abroad over the factor income paid to the foreign nationals is called the net factor income from abroad

Net National Product(NNP) = GNP -
Depreciation

Net Domestic Product(NDP) = GDP –
Depreciation

GDP at factor cost= GDP at market price – Net
indirect tax

NNP at factor cost =NNP at market price - Net
indirect tax

Net indirect tax=Indirect tax – subsidies

NNP at factor cost is National Income(NI)

GNP on the product side/Expenditure side

In an open economy

$$\text{GNP} = C + I + G + (X - M)$$

Where C=consumption expenditure

I=Investment expenditure

G=Govt. expenditure

X=Export

M=Import

Allocation of GNP on Income side

$$\text{GNP} = C + S + T + R_f$$

Where C=consumption expenditure, S=Savings,

T=tax payment, R_f=private transfer to foreigners

Real GNP and Nominal GNP

GNP can be measured either at current price or in real terms using some base year price.

Nominal GNP is money value of total output measured at current market price.

Real GNP total output is valued using base year price.

Nominal GNP does not truly indicate the real performance or economic growth of a country over time if prices are changing.

$$\text{GNP Deflator} = \text{Nominal GNP} / \text{Real GNP} \times 100$$

- **Transfer income is not included in the national income.**

What is transfer income?

There are some transactions in an economy that even though valuable from a welfare point of view signify no corresponding production of any new good or service. For instance, the old age pensions or merit scholarships given by the government are simply transfers of purchasing power or re-distribution of the already existent goods and services produced in a society. These payments are not given in lieu of any productive activity undertaken by the recipient.

Other Concepts

- **Personal Income (PI)** -Personal Income is the total money income received by individuals and households of a country from all possible sources before direct taxes.
$$\text{PI} = \text{NI} - \text{Corporate Income Taxes} - \text{Undistributed Corporate Profits} - \text{Social Security contribution} + \text{Transfer Payments}$$
- **Disposable Income (DI)** -The income left after the payment of direct taxes from personal income is called Disposable Income. Disposable income means actual income which can be spent on consumption by individuals and families.
$$\text{DI} = \text{PI} - \text{Direct Taxes}$$
- **Per Capita Income (PCI)**-- Per Capita Income of a country is derived by dividing the national income of the country by the total population of a country.
$$\text{PCI} = \text{Total National Income} / \text{Total National Population}$$

THANK YOU