

**NON MAJOR ELECTIVE
ECONOMICS FOR COMPETITIVE
EXAMINATIONS II**

SEMESTER VI

18BEC6EL

References

- Analytical Macro Economics from Keynes to Mankiw – Sampat Mukherjee, New Central Book Agency Private Limited, Kolkata.
- Macro Economics – Sankaran S, Margham Publications, Chennai
- Tamil Nadu Textbook Society, 11th and 12th textbooks for Economics.

UNIT I

- National Income – Meaning and definition
- Computation of National Income
- Difficulties in measuring national income

NATIONAL INCOME

Meaning

National income measures the total value of all the goods and services produced in an economy in a particular year.

The national income is considered to be the important indicator of the economic development and growth of an economy.

National income includes both the income generated within the country and from abroad.

NATIONAL INCOME

Gross Domestic Product (GDP)

GDP refers to the market value of all the goods and services produced inside an economy in an accounting year.

Gross National Product (GNP)

GNP includes the market value of all the goods and services produced in the domestic economy and the income from abroad.

COMPUTATION OF NATIONAL INCOME

National income can be measured using three methods:

- Product Method
- Income Method
- Expenditure Method

Product method

In this method, the monetary value of all the final goods and services that are produced in a particular year are taken in for measurement. The final goods and services means there is no further production from these. National income is a flow concept. It is also known as value added method because the national income is arrived by deducting the intermediate consumption from the final value of the output.

Income method

In this method, the total payment of income and wages for the factors of production viz., land, labour, capital and organisation are added up. The income for the factors of production are rent, wages, interest and profits. The sum of all factor payments for the goods and services produced in a year gives the national income.

Expenditure Method

The total expenditure incurred on the total final goods and services produced in any economy will give the national income. The expenditure that are included here are the consumption expenditure, investment expenditure, government expenditure and the net exports (exports – imports).

DIFFICULTIES IN THE MEASUREMENT OF NATIONAL INCOME

- Only marketable goods and services can be included in the national income. The output that are not sold through the market form a large portion in a country like India. The services of people in a household for the benefit of the family does not come in the measurement. Even if it does, the measurement may be underrated.

Non marketed goods and services do not find a place in the national income measurement.

- The value of recreational activities and leisure contribute to efficiency but are not included in the national income calculation.
- The gifts and scholarships received inside the country do not come under any income and does not form part of the national income. They are called as transfer payments.

- The transactions that are not reported and accounted and is illegal do not form the part of national income.
- The economic activities that generate national income also creates environmental damage. The environmental costs are not excluded from the market value of the final goods and services.

- The stock or inventories change in value due to inflation and deflation. In this situation the national income has to be deflated or inflated based on the price index for right calculation of profits and taxes. Another issue is the unsold stock during the year of measurement.
- Calculation of depreciation and keeping aside funds for depreciation is also difficult.

- In India, where the major portion of agricultural produce is kept for self consumption, problem arises in national income accounting and the amount of income declared in the farm sector is not accurate.
- The availability of reliable records is poor in a developing country like India. The small producers and sellers may not maintain proper records of the income and expenditure.

- Another important difficulty in national income measurement is to assign the correct value for the government services that are available either free of cost or subsidised rates.
- The example of a person having rented property will fix a notional rent making the tax calculations on such income inaccurate.