National Income Definition, Check GDP, GNP and NNP

National Income

National income is the total value of goods and services produced within or outside a country's domestic boundaries by its residents in a year. This represents the net income earned by citizens through their production activities in a given year. In India, the Central Statistical Organization is responsible for calculating national income.

According to Marshall: "The labour and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend."

The concept of National income falls under modern definitions. The concept of National Income is important because it measures the economic performance of a country, and is a key indicator of the living standards of its population. It helps policymakers to make decisions about how to allocate resources, formulate economic policies, and monitor the overall health of the economy.

Major Attributes of National Income

National Income is measured via different attributes such as Gross Domestic Product (GDP), Gross National Product (GNP), Net National Product (NNP), and National Income at Factor Cost (NI).

- **Gross Domestic Product (GDP)**

GDP is the total value of all goods and services produced within a country's borders during a given period, typically a year. GDP includes all final goods and services produced within the country, regardless of whether they are produced by domestic or foreign companies. GDP is often used as a key indicator of a country's economic performance.

The constituents or components of GDP are the various factors that contribute to its calculation. They can be classified into four main categories:

1. **Consumption:** This includes all spending by households on goods and services, such as food, clothing, housing, healthcare, and transportation. Consumption is typically the largest component of GDP, accounting for about two-thirds of total GDP in many countries.
2. **Investment:** This includes all spending by businesses on capital goods, such as machinery, buildings, and equipment, as well as spending on research and development, and changes in inventories. Investment is an important driver of economic growth, as it can increase productivity and expand capacity.
3. **Government spending:** This includes all spending by governments on goods and services, such as public education, healthcare, infrastructure, defence, and social welfare programs. Government spending can stimulate economic activity and provide essential public services.
4. **Net exports**: This represents the difference between a country's exports and imports of goods and services. If a country exports more than it imports, it has a trade surplus, which adds to GDP. If a country imports more than it exports, it has a trade deficit, which subtracts from GDP.

The Formula for Calculation of GDP

GDP = consumption + investment + government spending + exports - imports.

- ## Gross National Product

GNP stands for Gross National Product, which is a measure of the total economic output produced by a country's residents, regardless of their location. It includes the market value of all goods and services produced by citizens and businesses of a country, both within and outside of its borders, during a specific period of time, typically a year.

GNP differs from GDP (Gross Domestic Product), which measures the total economic output produced within a country's borders, regardless of who owns the assets or resources used to produce them. GNP takes into account the income generated by a country's citizens and businesses abroad, and it is often used to compare the economic performance of countries with large numbers of citizens or businesses operating overseas.

Components of GNP

- **Government expenditure:** It can be defined as the amount spent by a government. Here, expenditure incurred at levels, (from local levels to federal levels) is taken into consideration. The government indulge in various types of expenditures, such as the purchase of goods and services, money transfers, and investments.
- **Consumption expenditure**: It can be defined as the amount spent by households for consuming goods and services. Consumption expenditure is incurred to satisfy needs and wants.
- **Investment expenditure:** It can be defined as the amount spent by the business sector on final goods and services. Investment expenditure mainly includes the purchase of productive capital goods.
- **Exports:** These can be defined as the amount produced by a country for other nations. Exports include goods and services
- **Imports:** These are the opposite of exports. Imports can be referred to as the number of goods and services received from other nations.
- **Net factor income from abroad:** This is the income earned by a country's citizens and businesses from their investments or work abroad, minus the income earned by foreign citizens and businesses working in the country. This component is unique to GNP and reflects the earnings of a country's citizens and businesses beyond its borders.

Formula to Calculate GNP

GNP = GDP + NR (Net income from assets abroad or Net Income Receipts) - NP (Net payment outflow to foreign assets).

- ## Net National Product (NNP)

NNP is the value of all goods and services produced by a country's residents, minus the depreciation of capital goods. Depreciation is the reduction in the value of capital goods over time due to wear and tear, obsolescence, and other factors. NNP provides a more accurate picture of a country's economic performance than GDP or GNP, as it takes into account the depreciation of capital goods.

If we deduct depreciation from the GNP, we get is NNP

Net National Product $_{MP}$ = Gross National Product – Depreciation

- **National Income at Factor Cost (NNP_{FC})**

National Income at Factor Cost refers to the total value of goods and services produced within a country during a particular period of time, usually a year, after deducting the cost of intermediate goods and services used in production, but before deducting indirect taxes and subsidies.

The term "factor cost" refers to the cost incurred by the producers of goods and services for the factors of production, such as labour, capital, and raw materials. This cost includes the payments made to factors of production in the form of wages, salaries, interest, rent, and profits.

NNI at Factor Cost = NNP at MP plus Subsidies minus Indirect Taxes and Government earned profits.

Importance of National Income

National income is an important economic indicator that provides valuable information about a country's overall economic performance and standard of living. Here are some of the key reasons why national income is important:

1. **The measure of economic growth:** National income is a useful measure of a country's economic growth, as it reflects the total value of goods and services produced within a country's borders in a given period of time. By tracking changes in national income over time, policymakers and economists can gain insights into the direction and pace of economic growth.
2. **Comparison between countries:** National income can be used to compare the economic performance of different countries. This information can be helpful in assessing the relative strengths and weaknesses of different economies, and identifying areas for improvement.
3. **Policy-making**: National income is an important tool for policymakers to assess the impact of economic policies and programs. It helps to identify the areas where interventions are needed to stimulate economic growth, reduce unemployment, and improve living standards.
4. **Distribution of income:** National income data can be used to examine the distribution of income within a country. This information can help policymakers to identify inequalities and develop policies to address them.
5. **Business decisions:** National income data can be useful for businesses in making decisions about investment and expansion. Companies can use this information to assess the overall economic health of a country and identify potential growth opportunities.

Methods for Measuring National Income

There are three main methods for measuring national income:

1. **Income method:** This method calculates national income by adding up all the incomes earned by individuals and businesses within a country during a given period. This includes wages and salaries, profits, interest, and rent.
2. **Production method:** This method calculates national income by adding up the total value of all goods and services produced within a country during a given period. This is done by adding up the value of all intermediate goods and services used in production, as well as the final goods and services produced.
3. **Expenditure method:** This method calculates national income by adding up all the spending on goods and services within a country during a given period. This includes consumer spending, government spending, investment spending, and net exports.

Every method has its own strengths and weaknesses. The income method is useful for understanding the distribution of income within a country, while the production method provides insights into the structure of the economy. The expenditure method is useful for understanding the patterns of spending within a country and the factors driving economic growth.

In practice, economists often use a combination of these methods to calculate national income, as each method provides different information and insights into the economy. By using multiple methods to measure national income, economists can gain a more comprehensive understanding of the overall economic performance of a country.

Measurement Problems of National Income

Measuring national income is not an easy task and there are several problems that arise during the process. Some of the common measurement problems of national income are:

1. **Non-Market Activities:** There are many non-market activities, such as household production, that are not included in the national income. For example, a stay-at-home parent who spends time cooking, cleaning and taking care of children does not contribute to the national income, even though their work has significant value.

2. **Underground Economy:** National income measurements do not take into account the informal economy or the underground economy, which includes unreported income from illegal activities like drug trafficking, prostitution, and other black market transactions.

3. **Quality of Goods and Services:** National income measures only the quantity of goods and services produced, but not their quality. Therefore, improvements in quality are not reflected in the national income data.

4. **Transfer Payments:** Transfer payments, such as social security, welfare, and unemployment benefits, are not considered part of national income because they do not represent the production of goods and services.

5. **Depreciation:** The national income calculation does not take into account the depreciation of capital goods such as machinery, buildings, and infrastructure. Depreciation reduces the value of capital stock and should be taken into account when calculating national income.

6. **Time Period:** The time period for which national income is calculated also affects its measurement. Changes in the value of currency and inflation rates can significantly impact the calculation of national income. Therefore, it is important to choose an appropriate time period to ensure accuracy in the measurement.

Hence, National income is an important indicator of a country's economic growth and development. It provides valuable insights into the level of production and income generated by a country's economy. National income data are used by policymakers, investors, and other stakeholders to make informed decisions about the economy.