

# UNIT – VI

## NATIONAL INCOME

### MACRO ECONOMICS :

Macro Economics is that part of economic theory which studies the behavior of the aggregate of an economy as a whole . e.g. National Income , Full Employment , General Price Level , Aggregate Demand , etc.

#### ► CHARACTERISTICS / FEATURES / IMPORTANCE of Macro Economics

- [ 1 ] Macro Economics studies the policies related to the economy as a whole .
- [ 2 ] Macro Economics studies aggregates of economy such as National Income , Full Employment , General Price Level , Aggregate Demand , Total Production , etc .
- [ 3 ] Macro Economics helps in analysing the reasons for economic fluctuations and provide remedies .
- [ 4 ] Macro Economic Variables are related with the entire economy .
- [ 5 ] Macro Economics helps to coordinates various policies and measures at macro level to solve economic problems like Poverty , Unemployment , Inflationary Gap , Deflationary Gap , etc .
- [ 6 ] Macro Economics helps to the comparison of economic progress in different countries .

#### ► INTERDEPENDENCE OF MICRO ECONOMICS AND MACRO ECONOMICS ;

##### [ 1 ] Micro Economics depends on Macro Economics :

Change in aggregates at macro level does impact the economic units at individual level .

- e.g. (i) Increase in overall tax rate would influence an individual's decision to buy a goods as its price goes up .
- (ii) General price level in the economy influence the price of the commodity .
- (iii) Price determination of commodity depends not only on the relative forces of demand and supply but also depends upon demand and supply of other goods .
- (iv) The magnitude of profits depends upon the level of Aggregate demand , National income and the General price level in the country .

##### [ 2 ] Macro Economics depends on Micro Economics :

Change in variables at micro level does impact the economic units at micro level .

- e.g. (i) Aggregate demand depends on the demand of individual households of the economy .
- (ii) National income of a country is sum total of income of individuals of the economy .
- (iii) For analyzing general price level , the study of price theory is essential .

#### ► DIFFERENCE BETWEEN MICRO ECONOMICS AND MACRO ECONOMICS

<u>MICRO ECONOMICS</u>	<u>MACRO ECONOMICS</u>
1. It is concerned with an individual economic unit. e.g. , a firm , a consumer ,demand ,etc.	1. It deals with aggregates of economy . e.g. , National income , General price level , aggregate demand , etc .
2. It is based on the assumption of full employment .	2. It is based on the assumption of under full employment of resources .
3. Its central problem is price determination .	3 Its central problem is production and employment determination .
4. It is based on partial equilibrium analysis .	4. It is based on general equilibrium analysis .

## ► Some Basic Concept :

- ✳ **NATIONAL INCOME** :- The sum of income of normal residents of a country during the year is termed as National Income.
- ✳ **NATIONAL PRODUCT** :- The sum of the market value of final goods and services produced in a country in one year is known as National Product.

$$\text{National Income} = \text{National Product}$$

- ✳ **MONETARY NATIONAL INCOME** :- National income at current prices is termed as Monetary National Income. In other words, goods & services are valued at the prevailing prices of the year.
- ✳ **REAL NATIONAL INCOME** :- It is the value of goods and services at the prices of the base year. In other words, goods and services are valued at constant price.

$$\begin{array}{l} \text{Real National Income} \\ \text{Or,} \\ \text{National Income at Constant Price} \end{array} = \frac{\text{National Income at Current Price}}{\text{INDEX NUMBER of the current year}} \times 100$$

- ✳ **PER CAPITA INCOME** :- Per Capita income is the average Income of the people of the country during the year.

$$\text{Per capita Income} = \frac{\text{National Income at current price}}{\text{Population}}$$

- ✳ **REAL PER CAPITA INCOME** :- Per capita income in terms of real product and services is known as Real Per capita Income.

$$\text{Real Per capita Income} = \frac{\text{National Income at Constant price}}{\text{Population}}$$

- ✳ **NATIONAL INCOME ACCOUNTING** :- It is the method of measuring national income. In other words, It is the data relating to production and distribution of goods and services of different sectors.

## ✳ IMPORTANCE / USES OF NATIONAL INCOME / NATIONAL INCOME ACCOUNTING

- It is the simplest and most suitable means to know and measure the economic performance of a country.
- It helps in measuring the level and direction of economic welfare of a country.
- It provides information regarding the distribution of national income among different factors of production.
- National Income statistics are very helpful for formulation of various economic policies by the Govt.
- It is useful for formulating labour wages policies.

- **ECONOMY** :- Economy is such a structure in which various economic activities of a society are performed .

“Economy is the sum total of all economic activities”.

“All those activities of human beings which are concerned with the production , consumption , exchange and distribution of goods and services are known as Economy”.

- ★ **CLOSED ECONOMY** :- A country which has no economic relation with other countries is termed as a closed economy.
- ★ **OPEN ECONOMY** :- An economy which has economic relation with other countries of the world is termed as open economy.

▶ **CONSUMPTION GOODS [ FINAL GOODS ]:**

Consumption Goods are those goods which are bought and used by consumers for their final consumption rather than using in further production process .

**Consumption Goods are of two types :**

1. **Durable Goods :-** Durable Goods are those that last for a long time . e.g. , Car, TV. , Scooters , etc.
2. **Non-durable Goods :-** Non-durable Goods are those that last for a short time . e.g. , Toothpaste , Soap, Food items , etc .

▶ **PRODUCER GOODS :**

Producer Goods refer to those materials which are used by a firm to produce consumer goods .

**Producer Goods are of two types :**

1. **Intermediate Goods :-** Semi-finished goods are termed as intermediate goods . A firm's product that is used to input into the production process of either the same firm or another , is called Intermediate Goods .
2. **Capital Goods :-** Capital consists of those kinds of wealth other than free gifts of nature which yield income . Those producer goods which are not used for consumption but reinvested in the next production process . [ Capital = Fixed Capital + Variable Capital ]

▶ **Difference between FINAL GOODS and INTERMEDIATE GOODS :-**

<b>FINAL GOODS</b>	<b>INTERMEDIATE GOODS</b>
<ol style="list-style-type: none"> <li>1. Final Goods refer to those commodities used by the consumer.</li> <li>2. It is the part of consumption in household sector.</li> <li>3. Final Goods are the part of National Income estimation .</li> </ol>	<ol style="list-style-type: none"> <li>1. Intermediate Goods are such goods which are used in the production of other goods as raw material.</li> <li>2. It is the part of consumption in firm sector.</li> <li>3. Intermediate Goods are not the part of National Income estimation .</li> </ol>

- ▶ **STOCK** :- It means that quantity of an economic variables which is measured at a particular point of time . e.g. , Wealth , Capital , Quantity of Money , Bank Deposits , Water in a tank , Population of country , Stored goods in godown , etc.
- ▶ **FLOW** :- Flow is that quantity of an economic variable which is measured during the period of time . e.g. , Income , Water in river , Interest of capital , Capital formation , Sale of wheat , Water leakage from tank , etc.

## ► Difference between STOCK and FLOW :-

STOCK	FLOW
<ol style="list-style-type: none"><li>1. It means that quantity of an economic variables which is measured at a particular point of time.</li><li>2. It has no time dimension .</li><li>3. It is a static concept .</li><li>4. <i>EXAMPLE</i> : Wealth , Capital , Quantity of money, etc.</li></ol>	<ol style="list-style-type: none"><li>1. Flow is that quantity of an economic variable which is measured during the period of time .</li><li>2. It has time dimension like Per day, Per month, etc.</li><li>3. It is a dynamic concept .</li><li>4. <i>EXAMPLE</i> : Income , Water in river , Interest of capital , etc.</li></ol>

## ✱ CIRCULAR FLOW OF INCOME

A Continuous flow of production, income and expenditure is known as circular flow of income. It is circular because it has neither any beginning nor an end. Circular flow of income measures the amount of national income.

## ✱ TYPES OF CIRCLAR FLOW OF INCOME :-

Circular flow of income is of following two types –

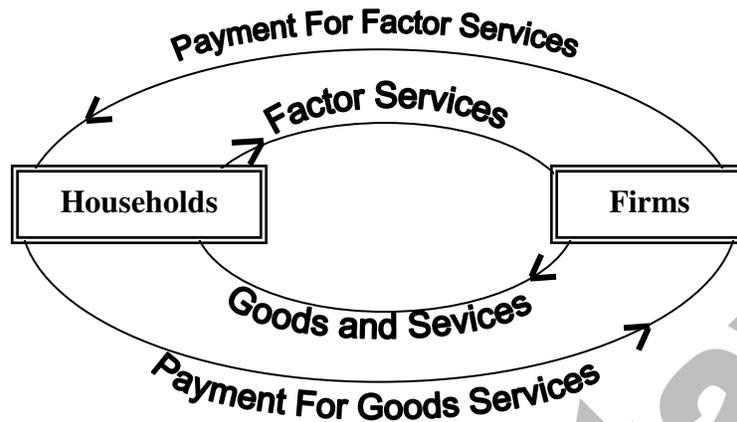
- (i) **REAL FLOW** :- The flow of factor services from household to firms and flow of goods and services form firm to household is called Real Flow of income.
- (ii) **MONEY FLOW** :- The cycle of monetary payments from firms to households for their factor – services and monetary payment from household to the business (firm) against their goods and services, is known as Money-Flow.

## ✱ Different Sectors of Macro Economics :-

1. **Household Sector** :- It is a group of persons normally living together and taking food from a common kitchen . It consists of various factors like Land , Labour , Capital and Organisation . It provide services to other sectors .
2. **Firm ( Business Sector )** :- Firm is a institutional unit which produces goods and services for the market . It consists of producers of goods and services .It hires factors to produce and sell goods .
3. **Government Sector** :- This sectors smoothens and regulates Household and Firm sectors . It promotes public welfare by collecting taxes and spending it upon public utilities .
4. **Rest of World Sector** :- This sector is engaged in exports and imports of goods and services .

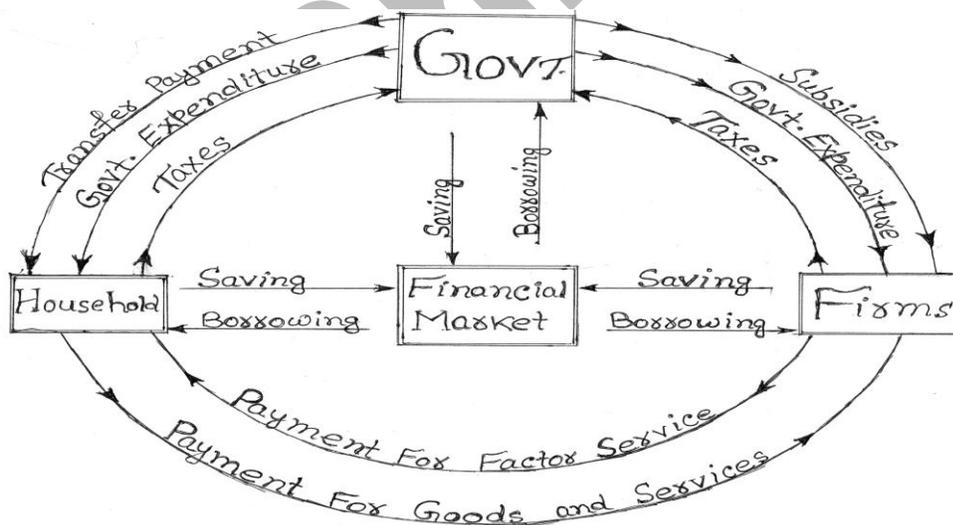
★ CIRCULAR FLOW OF INCOME IN TWO SECTOR ECONOMY –

In two Sector economy, Income is generated during production process and flow of income between household and firm sectors.



Firm Produce goods and services by obtaining factor Service (Land, Labour Capital, Entrepreneur ) from household and pay rewards (Rent, wages, Interest, Profit) to them. These payments are income of household, who use it in purchasing goods and services from firms. In this way money reaches to the firms again who invest it in production process again and generate income, and flow of income continues.

★ CIRCULAR FLOW OF INCOME IN THREE SECTOR ECONOMY OR, (CLOSED ECONOMY)

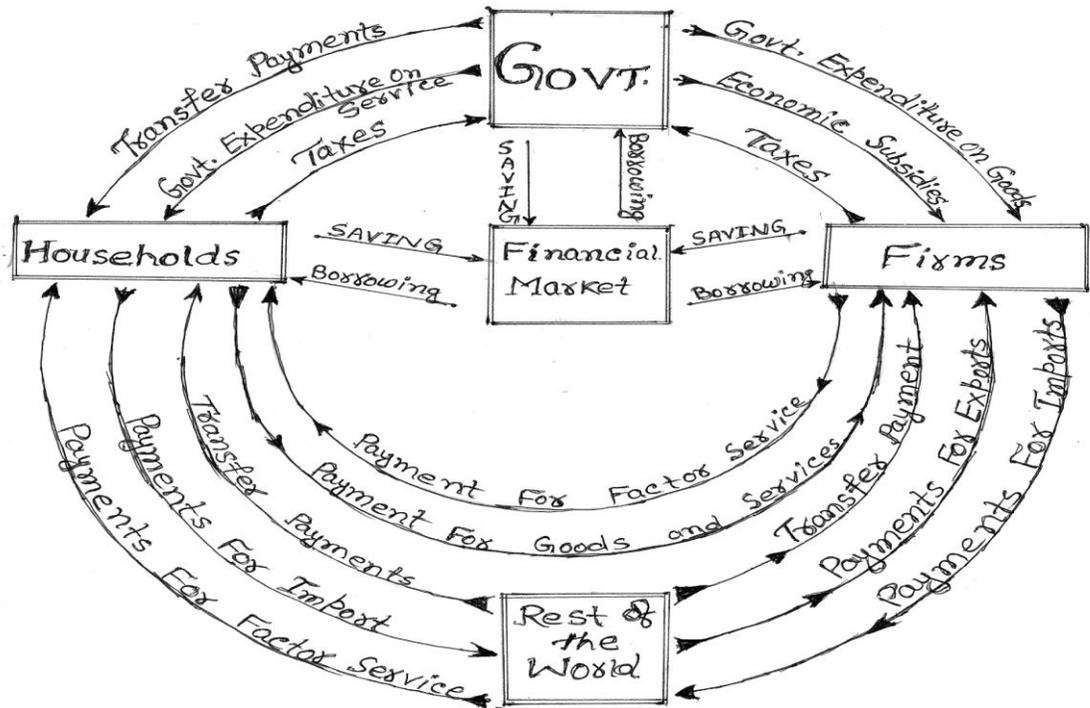


**Here,** Income circulated in three sectors – Govt., household & Firms. Household receive factor income ( i.e. Rent, Wages, Interest & Profit) for their services and pay taxes to govt. and make payment to firm sector for purchase of goods & services. Household receive transfer payment from govt. and make saving.

On the other hand, Firm sector receives subsidies from govt. and pay taxes to govt. Besides that govt. incurs some public expenditure and makes dealing with financial market. Financial Market accept saving from Govt., household & firm sector and grant borrowing to Govt. household & firm sector. Therefore, income is changed from one sector to another and make a flow.

**\* CIRCULAR FLOW OF INCOME IN FOUR SECTOR ECONOMY**  
**OR,** **(OPEN ECONOMY)**

Modern economies are open economy. An open economy is that economy which has economic relations with rest of the world.



Above diagram shows the circular flow of income in an economy, which has four sector. Money flows between each sector are explained as follows –

- (1) **Household** : - This sector provides factors of production in terms of goods & services to firms, Govt. and Rest of world sector, and receives factor payments. They also receive transfer payments for govt. and world sector. Households spend a major part of their income to firms sector for buying goods & services, and tax- payments to govt. and some payments for imports.
- (2) **Firm Sector** : - This sector receives money (Income) from household sector, govt. Sector and rest of the world sector for the sale of goods and services. This sector also received transfer payments from govt. & rest of world and subsidies from govt. Firm sector spend their income to household sector for factor services, taxes to govt. and some payment for rest of world for imports.
- (3) **Govt. Sector** : - Govt. sector receive revenue in the from of taxes, fees and fines, etc. from firm Sector and house hold sector. Govt. Spend their income as Factor Payment, Transfer payment (Subsidies) to household and firm sector and also rest of world sector.
- (4) **Rest of the World** : - This sector receive revenue for imports from firms and household and govt. sector. In return it makes payments to producers, & household sector for the export of goods & factor services.

▶ **LEAKAGES :-**

Those factors which dampen the flow of income and expenditure are known as Leakages of flow of income. In other words, that income which is not returned to circular flow as an expenditure and is kept away from the flow, is called leakages.

e.g., Saving, Imports, Taxes by the Govt., Payment of old debts .etc.

▶ **INJECTIONS :-**

Those factors which raise the flow of income and expenditure are known as Injections. In other words, injection of income of that income addition which takes place in circular flow from sources other than circular flow.

e.g., Public Investment, Private Investment, Foreign Direct Investment, etc.

▶ **DOUBLE COUNTING PROBLEM :-**

Double Counting means counting of the value of same product (or, Expenditure) more than once in calculating the National Income. In other words, problem of double counting is the problem of estimating the value of goods and services more than once.

**How To Avoid This**

(1.) **FINAL PRODUCT METHOD** :- According to this method, the value of final goods and services only is included in National Income.

(2.) **VALUE ADDED METHOD** :- It refers to the difference between value of output and the value of intermediate consumption of each producing unit in the country.

▶ **DEPRECIATION** :- Depreciation means consumption of fixed capital. It is Non-trading or Non-operating income. It does not generate funds or income in the business but reduces profit.

**Components** :- (1) Normal wear and tear.

(2) Accidental breakdown of the machinery.

(3) **OBSOLESCENCE** :

Those expenses which are incurred by the producers because of some capital equipment becoming out of date with the introduction of latest machines and equipment.

▶ **Net Earnings from Abroad**

**OR, Net Factor Income from Abroad [ NFIA ] :-**

It is the difference between the factor income earned from abroad by normal residents of a country and the factor income earned by Non-residents (foreigners) in the domestic territory of that country. It may be (+)ve or (-)ve.

➤ **Net Earnings from Abroad is (+)ve, when** income earned from abroad is **more** than income paid to abroad.

➤ **Net Earnings from Abroad is (-)ve, when** income earned from abroad is **less** than income paid to abroad.

➤ **COMPONENTS OF NFIA** : (1) Net Consumption of Employees.

(2) Net Income from Property and Entrepreneurship.

( form of Rent, Interest, Dividend)

(3) Net Retained Earning of Resident Companies from Abroad.

► **TRANSFER PAYMENTS** :-

Payment which are made without getting any good and service in exchange are called Transfer Payment . e.g. Old age pension , Unemployment Allowance , Gift , Donation , Subsidies , etc.

Transfer Payments commonly refers to efforts by local , state and federal governments to redistribute money ( i.e. Redistribution of income and wealth ) to those in need .

► **CHANGE IN STOCK** :-

Change in Stock is the difference between closing stock and opening stock . **Closing Stock** includes the value of unsold output in the previous year and forms the **Opening Stock** of the current year . Thus ,

$$\text{Change in Stock} = \text{Closing Stock} - \text{Opening Stock}$$

► **NET EXPORT** :-

Net Exports are a measure of a nation's total trade .It is the difference between the value of nation's total export of goods and services and the value of nation's total imports of goods and services in an accounting year . Thus,

$$\text{Net Exports} = \text{Exports} - \text{Imports}$$



**NATIONAL INCOME AND RELATED AGGREGATES**

- (1) **GROSS DOMESTIC PRODUCT ( GDP )** :- Gross Domestic Product at market price is the total value of all final goods and services produced within the domestic territory of a country during an accounting year.

$$\text{GDP} = P (Q) + P (S)$$

Where, P = Market Price  
Q = Quantity of goods produced during the year  
S = Services

*GDP can be estimated at both the current & constant market price –*

- (A) **GDP at current Market Price** :- It means that, goods and services produced during the year are valued Or, **Nominal GDP** in terms of prevailing price of the year. It reflects the effect of price fluctuations.
- (B) **GDP at Constant Price** :- Constant price means base year price. Goods and services produced during the year are either valued at constant price of the base year or the value of goods and services at current price is converted into the value at constant price.

$$\text{GDP at constant price (Real GDP)} = \frac{\text{GDP at current Price}}{\text{Current Price Index}} \times 100$$

e.g.

Name of the Commodity (1)	1990		2002		Domestic Product in 2002	
	Output (Units) (2)	Price Per Unit (in ₹) (3)	Output (Units) (4)	Price Per Unit (in ₹) (5)	At Current Price (4 X 5) (6)	At Constant Price (4 X 3) (7)
A	1,000	15	1,000	30	30,000	15,000
B	2,000	10	2,000	25	50,000	20,000
C	3,000	5	3,000	20	60,000	15,000

## (2) GROSS NATIONAL PRODUCT ( GNP ) :-

Term 'National' means the citizens of India living within the country or outside the country. GNP is the total value of all final goods and services produced by the nationals of the country within the country or outside the country.

(i)  $\text{GNP}_{\text{MP}} = \text{GDP} + \text{FY}$  Where, F Y = Net income from abroad.

(ii)  $\text{GNP}_{\text{MP}} = \text{GDP} + \text{NFIA}$

(iii)  $\text{GNP}_{\text{MP}} = \text{GDP}_{\text{FC}} + \text{IT} - \text{S}$

Where, IT = Indirect Taxes S = Subsidies

ie. GNP may be defined as the value of final goods and services produced during the year plus net earning from abroad.

GNP can be estimated at both the current & constant market price –

(A) **Nominal GNP** :- When GNP is calculate at current market price ,it is called Nominal GNP .

(B) **Real GNP** :- When GNP is calculate at base year price ( constant price ), it is called Nominal GNP .

### ★ GNP at factor cost ( $\text{GNP}_{\text{FC}}$ )

It is the difference between Gross National Product at market price ( $\text{GNP}_{\text{MP}}$ ) and net indirect taxes.

$$\text{GNP}_{\text{FC}} = \text{GNP}_{\text{MP}} - \text{Indirect taxes} + \text{Subsidies}$$

Or ,

$$\text{GNP}_{\text{FC}} = \text{NNP}_{\text{FC}} + \text{Depreciation}$$

### ★ Components of GNP :-

- (1) Goods and services produced by household sector .
- (2) Goods and services produced by government sector .
- (3) Gross fixed capital formation.
- (4) Net factor income from abroad (NFIA).
- (5) Change in stock .
- (6) Net exports .

### ★ Difference Between GDP and GNP

GDP	GNP
1. It refers the money value of all the final goods & services produced within domestic territory of country	1. It refers the money value of final goods & services produced by nationals within and outside the country.
2. It is a territorial concept.	2. It is a national concept.
3. It does not include net factor earning from abroad.	3. It does include the income from rest of the world.
4. $\text{GDP} = \text{GNP} - \text{NFYA}$ .	4. $\text{GNP} = \text{GDP} + \text{NFYA}$ .
5. It is a smaller concept.	5. It is a wider concept.

### (3) NET DOMESTIC PRODUCTS ( NDP ) :-

#### **(A) At Market Price :-**

It is the market value of final goods and services produced within the domestic territory of a country in an accounting year less consumption of fixed capital (depreciation).

$$\text{NDP}_{\text{MP}} = \text{GDP}_{\text{MP}} - \text{Depreciation}$$

Or

$$\text{NDP}_{\text{MP}} = \text{GNP}_{\text{MP}} - \text{Depreciation} - \text{Net factor Income from abroad.}$$

#### **(B) At Factor Cost :-**

It is the total factor incomes earned by the factors of production working within domestic territory of a country in an accounting year.

$$\text{NDP}_{\text{FC}} = \text{NDP}_{\text{MP}} - \text{Indirect Taxes} + \text{Subsidies}$$

Or

$$\text{NDP}_{\text{FC}} = \text{NNP}_{\text{FC}} - \text{Net factor Income from abroad.}$$

### (4) NET NATIONAL PRODUCT ( NNP ) :-

#### **(A) At Market Price :-**

It is the net domestic product at market price; ie. prevailing price plus net factor income from abroad.

$$\text{NNP}_{\text{MP}} = \text{NDP}_{\text{MP}} + \text{Net factor Income from abroad.}$$

Or

$$\text{NNP}_{\text{MP}} = \text{GNP}_{\text{MP}} - \text{Depreciation}$$

#### **(B) At Factor Cost :-**

It is the net earning received by factors of production as wages, rent, interest and profit plus Net Factor Income from abroad.

$$\text{NNP}_{\text{FC}} = \text{NDP}_{\text{FC}} + \text{NFIA}$$

Where, NFIA = Net factor income from abroad.

$$\text{NNP}_{\text{FC}} = \text{GNP}_{\text{FC}} - \text{Depreciation}$$

### (5) NATIONAL DISPOSABLE INCOME :-

National Disposable Income refers to that amount of income which is available to whole

economy ( Govt. + Household + Private Enterprises ) for spending.

<b>National Disposable Income</b>	=	Net Indirect tax + Income from domestic product accruing to private Sector + Income from domestic product accruing to Govt. Sector + Net Factor Income from abroad + Net Current transfer from abroad.
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**(6.) PRIVATE INCOME :-**

Private income refers to the income which accrues to private sector from all legal sources both within domestic territory or with as from rest of the world . Transfer payments are not included in National Income, but they are the part of private income.

<b>Private Income</b>	=	NDP <sub>FC</sub> + Transfer payments + Net Factor Income from Abroad + Interest on national debt – Income of the govt. – Surplus of non departmental undertaking.
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**(7.) PERSONAL INCOME :-**

Income received by individuals or households in a country during one year is known as personal Income.

<b>Personal Income</b>	=	Private Income – Corporate taxes – Corporate Saving (Undistributed profit)
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**(8.) PERSONAL DISPOSABLE INCOME :-**

Personal Disposable Income is that part of personal income which is actually available to individuals (Households) for consumption and savings.

<b>Personal Disposable Income.</b>	=	Personal Income – Personal Direct taxes – Miscellaneous govt. receipts ( Like – Fines, Fees, etc.)
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Or

PDI = Consumption + Savings
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**► DIFFERENCE BETWEEN .....**

<b>PRIVATE INCOME</b>	<b>PERSONAL INCOME</b>
<ol style="list-style-type: none"> <li>1. It is the total income of both private enterprises and households .</li> <li>2. It includes corporate tax and corporate saving .</li> <li>3. It is a wider concept .</li> </ol>	<ol style="list-style-type: none"> <li>1. It is the actual income received by households and individuals .</li> <li>2. It does not includes corporate tax and corporate saving .</li> <li>3. It is a narrow concept .</li> </ol>

<b>PERSONAL INCOME</b>	<b>PERSONAL DISPOSABLE INCOME</b>
<ol style="list-style-type: none"> <li>1. Whole of this income cannot be disposed of upon consumption and saving .</li> <li>2. It include direct taxes .</li> <li>3. It includes fees and fines of Govt. administration.</li> <li>4. It is wider concept .</li> </ol>	<ol style="list-style-type: none"> <li>1. It is that part of personal income which is disposed upon consumption and saving .</li> <li>2. It does not include direct taxes .</li> <li>3. It does not includes fees and fines of Govt. administration.</li> <li>4. It is narrow concept .</li> </ol>

<b>PERSONAL INCOME</b>	<b>NATIONAL INCOME</b>
<ol style="list-style-type: none"> <li>1. Personal Income includes both the factor incomes and transfer payment .</li> <li>2. It includes income generated in both private sector only .</li> <li>3. Interest on national debt is included in it .</li> <li>4. It does not include corporation tax .</li> <li>5. It does not include corporate saving (undistributed profit).</li> </ol>	<ol style="list-style-type: none"> <li>1. Personal Income includes only factor incomes.</li> <li>2. It includes income generated in both the private sector and public sector .</li> <li>3. Interest on national debt is not included in it .</li> <li>4. It include corporation tax .</li> <li>5. It include corporate saving (undistributed profit).</li> </ol>

<b>PERSONAL DISPOSABLE INCOME</b>	<b>NATIONAL DISPOSABLE INCOME</b>
<ol style="list-style-type: none"> <li>1. It is the actual income received by households from all sources .</li> <li>2. It does not includes both direct and indirect taxes.</li> <li>3. <math>PDI = \text{Personal Income} - \text{Direct Taxes} - \text{Misc. Govt. Receipts} .</math></li> </ol>	<ol style="list-style-type: none"> <li>1. It is the income of whole National Income including income of public and private sector , transfer payment and indirect tax .</li> <li>2. It includes both direct and indirect taxes .</li> <li>3. <math>NDI = NNP_{FC} + \text{Net Indirect Taxes} + \text{Net Current Transfer Payment} .</math></li> </ol>

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## **NATIONAL INCOME ACCOUNTING : MEASUREMENT**

### **1. Value Added Method** or , **Product Method** :-

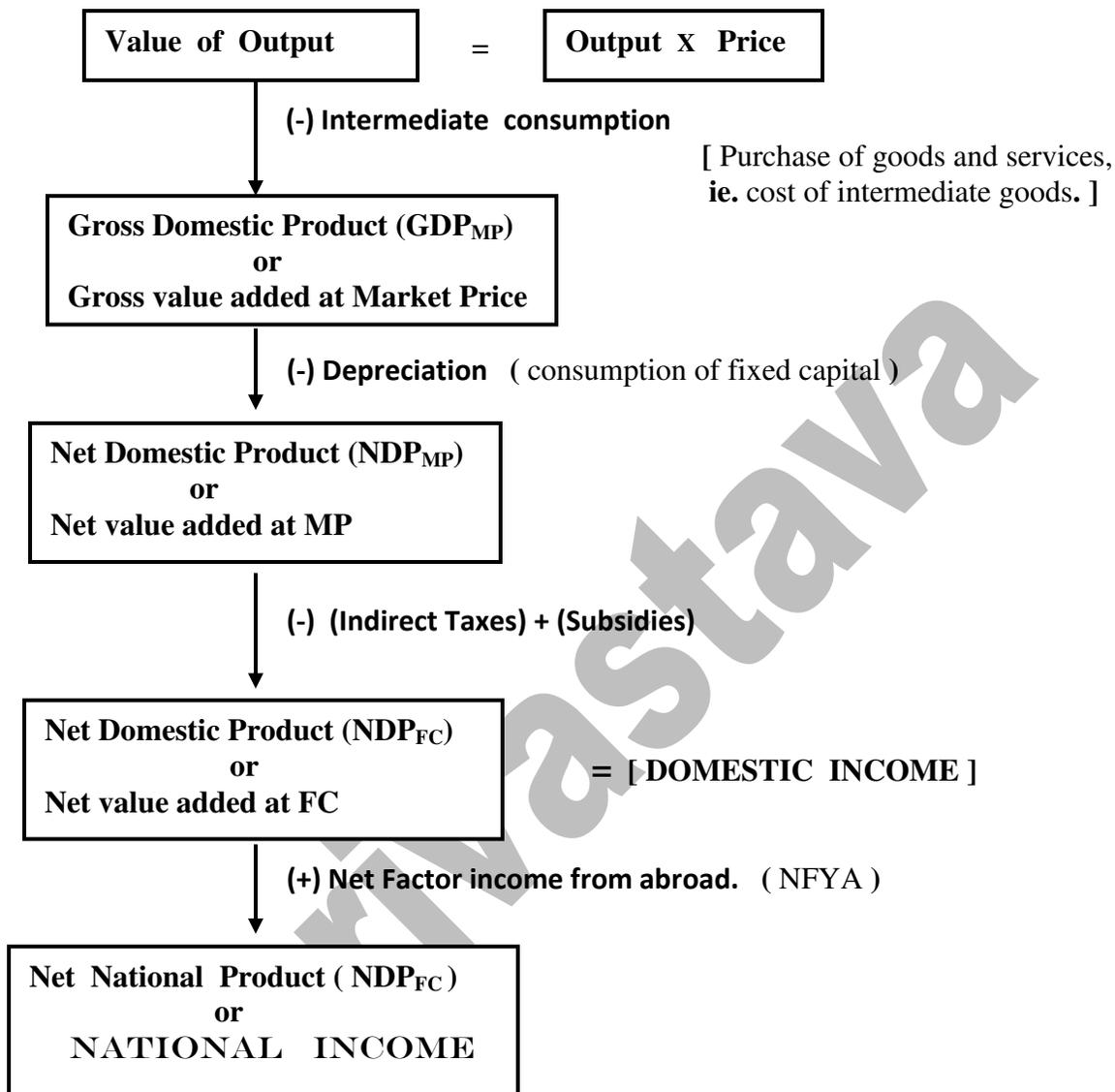
Product method is an attempt to measure national income on the basis of contribution made by all the producing enterprises in the domestic territory of the country within the accounting year.

According to value added method, the value of all goods and services, which produced in economy during an accounting year, is known as 'National Income.'

According to this method, the process of estimating national income may be summarized as under –

- (i) Estimating the gross value of output in the various sectors of the economy.
- (ii) Determining the cost of material used and services rendered.
- (iii) Determining depreciation on capital goods and equipments.
- (iv) Calculating net value of domestic product by deducting depreciation from gross domestic product.

✳ *Step Involved :-*

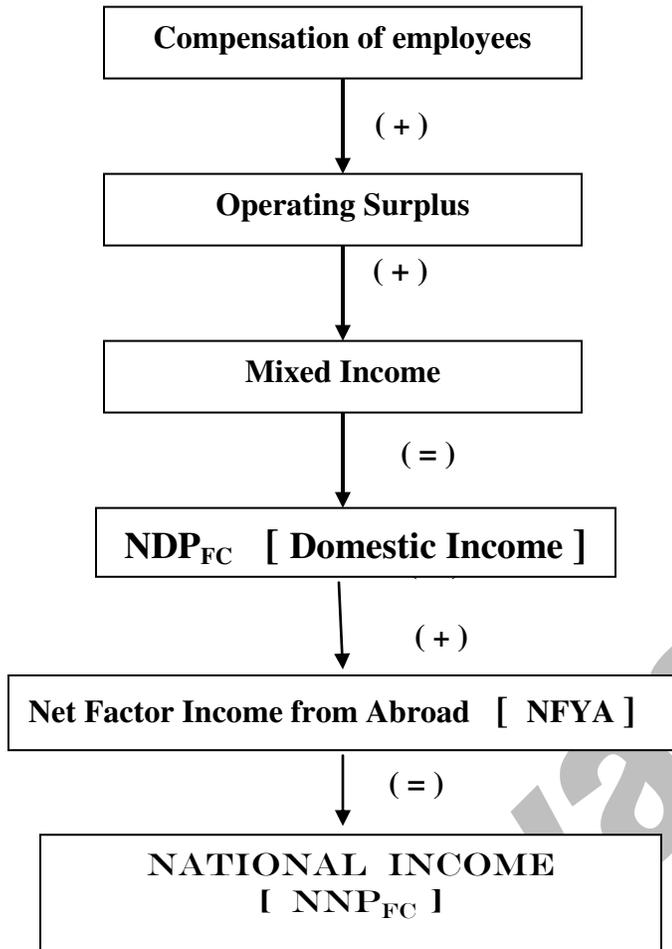


## 2. INCOME METHOD OR FACTOR INCOME METHOD :-

Income method of measuring national income, estimate income on the basis of payments made to primary factors of production in the form of wages. In other words, “National Income is the sum total of factor incomes earned by the normal residents of a country during a year by working both within or outside the country.”

✳ *Steps involved :-*

- (i) First of all, we classify the economy into three sectors – Primary Sector, Secondary sector and Tertiary Sector.
- (ii) Factor income is divided into following groups –
  - a. **Compensation of employees** – Wages, Salaries, Pension, Securities. etc
  - b. **Operating Surplus** – Rent, Royalty, interest, Profit, dividend, etc.
  - c. **Mixed Income** – Income of Self employed persons.
- (iii) Adding Net Factor Income from Abroad



★ **Precautions :-**

- (i) Any income from the sale of second hand goods & property is not included in national income.
- (ii) Transfer payment should not be included in national income.,
- (iii) Income from illegal activities.
- (iv) Indirect taxes ( because, IT is part of  $GNP_{MP}$  )
- (v) Sale of shares and bonds.
- (vi) Corporation tax, income tax, wealth tax, gift tax estate duty, Death Duties, etc. not included in National Income.

3. **EXPENDITURE METHOD** or **INCOME DISPOSAL METHOD** :

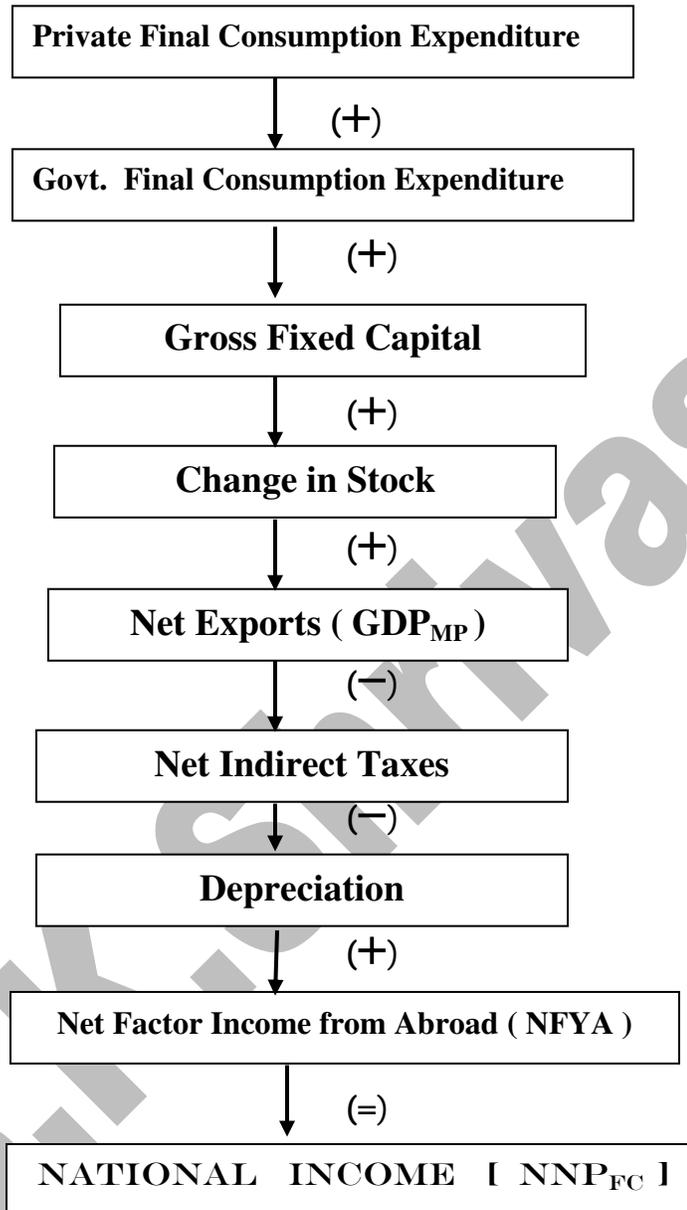
Expenditure Method is an attempt to measure national income on the basis of final expenditure on  $GDP_{MP}$  during an accounting year.

$$Y = C + I + G + E$$

Where,

$Y$  = Yield ( National Income ).  
 $C$  = Private consumption Expenditure.  
 $I$  = Private Investment Expenditure.  
 $G$  = Govt. expenditure on consumption & investment.  
 $E$  = Net income earned from abroad.

✦ **Steps Involved :-**



✦ **Precautions :-**

- (i) Expenditure on final goods and services is included .
- (ii) Expenditure on commission on sale and purchases of second hand goods is included .
- (iii) Expenditure on brokerage on share and bonds ( new and old ) is included .
- (iv) Expenditure on intermediate goods services is not included .
- (v) Expenditure on second hand goods is not included .
- (vi) Expenditure on share and bonds is not included .
- (vii) Expenditure on Transfer Payment is not included .

(i) **Private Final Consumption Expenditure :-**

$$\boxed{\text{Private Final Consumption Expenditure}} = \boxed{\text{Value of final Expenditure of households and private non – profit institutions on current goods and services. (+) Value of gifts in kind (Net) received from Abroad (-) Net sales of Second hand goods scraps.}}$$

(ii) **Govt. Final Consumption Expenditure :-**

$$\boxed{\text{Govt. Final Consumption Expenditure.}} = \boxed{\text{Current expenditure on goods and Services incurred in providing services of govt. administrative departments. (+) Govt. purchases of goods & from abroad. (-) Sales of goods & Services}}$$

(iii) **Gross Domestic Capital Formation :-**

$$\star \text{ Gross domestic Capital Formation} = \boxed{\text{Gross Domestic Fixed Capital Formation}} + \boxed{\text{Change in Stock}}$$

$$\star \text{ Gross Domestic Fixed Capital} = \boxed{\text{Constructions of Buildings + Road, Bridges + irrigation, airport, dam, telephone, + Transports, + Machinery equipments, + Breeding stock, dairy cattle, other animal.}}$$

Or,

$$\text{GDFC} = \boxed{\text{Purchases of new assets in the domestic market (+) Own account production of new assets (+) Net purchase of second hand physical assets from abroad.}}$$

UNIT - VI  
NATIONAL INCOME AND RELATED AGGREGATES

1. **Macro Economics is the study of :** [ 2012 , ]  
(A) Employment opportunities in economy (B) Theory of supply of the commodities  
(B) Elasticity of demand of scooter (D) Price of wheat in market
2. **General Price Level is studies in :** [ 2012 , 15 , ]  
(A) Micro Economics (B) Macro Economics (C) Both (A) and (B) (D) None of the these
3. **“The sum total of the market value of final goods and services produced by normal residents of a country in one year is known as National Product .” Who said it ?** [ 2012 , ]  
(A) Kuznets (B) Peterson (C) J.S. Bain (D) All of these
3. **Who said that Macro economics deals with the functioning of the economy as a whole ?** [ 2012 , 14 ]  
(A) Shapiro (B) M. H. Spencer (C) Keynes (D) None of the these
5. **Which of the following is included in circular flow ?** [2013 , 19 , 19A , ]  
(A) Consumption (B) Investment (C) Income (D) All of these
6. **Increase in stock of capital is known as :** [ 2015 , ]  
(A) Capital Loss (B) Capital Profit (C) Capital Formation (D) None of the these
7. **Which sector is included in an economy ?** [ 2016 , ]  
(A) Primary (B) Secondary (C) Tertiary (D) All of these
8. **Which one is included in Primary Sector ?** [ 2017 , ]  
(A) Land (B) Forest (C) Mining (D) All of these
9. **Which of the following is not included in the calculation of GNP ?** [ 2017 , ]  
(A) Purchase and sold of old commodities (B) Intermediate commodities  
(C) Both (A) and (B) (D) None of the these
10. **The subject of the study of Macro-economics is :** [ 2019 A , ]  
(A) The principle of national income (B) The principle of Consumer  
(C) The principle of Producer (D) None of the these
11. **Which of the following is a stock ?** [2019A , ]  
(A) Wealth (B) Saving (C) Export (D) Profit
12. **Which of the following is included in Secondary Sector ?**  
(A) Insurance (B) Banking (C) Trade (D) Manufacturing
13. **Which is the equilibrium condition of circular flow of four sector economy ?**  
(A) C+I (B) C+I+G (C) C+I+G+(X-M) (D) None of the Above
14. **Which of the following is included in Tertiary Sector ?**  
(A) Mining (B) Construction (C) Communication (D) Manufacturing
15. **Which one is included in three-sector model ?**  
(A) Family (B) Firm (C) Government (D) All of the above
16. **What is consumption of fixed capital called ?**  
(A) Capital Formation (B) Depreciation (C) Investment (D) All of the above
17. **Which one is true ?**  
(A)  $GNP = GDP - Depreciation$  (B)  $NNP = GNP + Depreciation$   
(C)  $NNP = GNP - Depreciation$  (D)  $GNP = NNP - Depreciation$
18. **The market price of all final goods and services produced in the domestic territory of a country in a year is known as :**  
(A)  $GDP_{MP}$  (B)  $GDP_{FC}$  (C)  $NNP_{FC}$  (D) None of the Above
19.  **$NDP_{FC} = ?$**   
(A)  $NDP_{MP} - IT$  (B)  $GNP_{MP} - IT + S$  (C)  $NDP_{MP} - S$  (D)  $NDP_{MP} - Depreciation$
20.  **$NNP_{FC}$  is called :**  
(A) National Income (B) Gross Investment (C) Domestic Income (D) None of the these
21. **Which one is included in National Income ?**  
(A) Transfer Earning (B) Sale proceeds of Share and Bonds  
(C) Black Money (D) None of the these

22. Which one is a component of profit ?  
 (A) Dividend (B) Undistributed Profit (C) Corporate Profit Tax (D) All of the above
23. To include the value of goods and services more than one time while calculating National Income is called :  
 (A) Single Counting (B) Double Counting (C) Multiple Counting (D) None of the above
24. Method is adopted in measuring National Income ?  
 (A) Product Method (B) Income Method (C) Expenditure Method (D) All of the above
25. Which goods are not included in calculating GNP :  
 (A) Final Goods (B) Intermediate Goods (C) Both (A) and (B) (D) None of the these
26. Depreciation expenses are included in : [2017 Compt. , ]  
 (A)  $GNP_{MP}$  (B)  $NNP_{MP}$  (C)  $NNP_{FC}$  (D) None of the these

### ► SHORT ANSWER TYPE QUESTIONS

- |   |   |
|---|---|
| # Define Macro Economics .                  | # What is called increase in capital stock .                        |
| # Define Flow .                             | # Give an example of Money Flow .                                   |
| # Define Stock .                            | # Give an example of Real Flow .                                    |
| # Define Consumption Goods .                | # What is called flow of income ?                                   |
| # Define Capital Goods .                    | # What is called flow of goods and services ?                       |
| # Define Depreciation .                     | # Define Final Goods .  |
| # Define Intermediate Goods .               | # Define Net Export .   |
| # Define Investment .                       | # What is Net Factor Income from Abroad ( NFAI ).                   |
| # Define Durable Goods .                    | # What is Transfer Earnings .                                       |
| # Define Producer Goods .                   | # What is National Disposable Income .                              |
| # Define Circular Flow of Income .          | # What is Net Indirect Tax .  |
| # Define Real Flow .                        | # Define National Income .  |
| # Define Money Flow .                       | # What is $NNP_{MP}$ - NFIA .                                       |
| # Define Leakage of Income .                | # What is called the difference between $NDP_{MP}$ and $NDP_{FC}$ . |
| # Define Injection of Income .              | # What is called the difference between $GDP_{MP}$ and $NDP_{MP}$   |
| # Define Closed Economy .                   | # What is National Product .  |
| # Define Open Economy .                     | # What is Monetary National Income .                                |
| # Define Primary Sector .                   | # What is Real National Income .                                    |
| # Define Secondary Sector .                 | # What is Double Counting Problem .                                 |
| # Define $GDP_{MP}$ .                       | # What is Nominal GDP .   |
| # Define $GNP_{MP}$ .                       | # What is Real GDP .  |
| # Define $NNP_{MP}$ .                       | # What is Nominal GNP.  |
| # Define $NDP_{MP}$ .                       | # What is Real GNP .  |
| # Define $NDP_{FC}$ . (or, Domestic Income) | # What is the meaning of term 'National'.                           |
| # Define Private Income .                   | # Write down the components of Compensation of Employees            |
| .   |   |
| # Define Personal Income .                  | # Write down the components of Operating Surplus .                  |
| # Define Personal Disposable Income .       | # What is Mixed Income .  |
| # What is Factor Income .                   | # On which price nominal national income is shown ?                 |

### ► JAC BOARD QUESTIONS

- What is Macro Economics ? [2006 Arts & compt.] [2009 Sc. & Arts] [ 2015 Arts]  
[2016 Sc. & Arts] [ 2017 Arts] [2018Sc. & compt.] [ 2020 Sc.]
- What is the difference between *Macro Economics* and *Micro Economics* ?  
[ 2010 Sc.] [ 2013 Arts] [ 2014 Sc.] [ 2017 Sc.] [ 2020 Sc.]
- What is features of Macro Economics ? [ 2019 Sc.]
- Give two illustrations of independence between *Macro Economics* and *Micro Economics* .

- [ 2007 Sc.] [ 2015 Sc.]
5. What is the difference between *Final Goods* and *Intermediate Goods* ? [ 2019 Sc.]
  6. Distinguish between *Flow* and *Stock* . [ 2014 Arts] [ 2019 Arts]
  7. What is Money Flow ? [ 2010 compt.] [ 2017 Arts]
  8. What is meant by Circular Flow of Income ? [ 2009 Arts] [ 2017 compt.]
  9. Explain the Circular Flow of Income in an economy . [ 2006 Arts] [ 2018 Arts]
  10. Explain three stages of Circular Flow of National Income . [ 2004 Arts] [ 2017 Arts]
  11. Explain four stages of Circular Flow of National Income . [ 2007 Sc.] [ 2010 compt.]
  12. What are the Leakage and Injection in Circular Flow of Income ? [ 2013 Sc.]
  13. Distinguish between *GDP* and *GNP* .  
[ 2009 Arts] [ 2013 Arts] [ 2019 Sc.] [ 2019 compt.]
  14. What do you meant by *GNP* . [ 2006 Arts] [ 2018 Sc.]
  15. Define Net National Product ( *NNP* ) . [ 2011 Sc.]
  16. What is Factor Income ? [ 2020 Sc.]
  17. What is the Domestic Income in the view of Factor Income ? [ 2010 compt.]
  18. What do you mean by Disposable Income ? [ 2007 Sc.]
  19. What do you mean by Gross National Disposable Income ? [ 2008 Sc.]
  20. What are Transfer Payment ? [ 2017 Arts]
  21. What is the difference between National Income and Private Income ? [ 2014 Sc.]
  22. What do you mean by Double Counting ? How the problems can be solved ?  
[ 2007 Sc.] [ 2010 Sc.] [ 2010 compt.]
  23. What is National Income ? [ 2007 Sc.] [ 2015 Arts] [ 2016 Sc.]  
[ 2018 Arts] [ 2018 compt.] [ 2020 Sc.]
  24. What are the significance of National Income Accounting ?  
[ 2010 compt.] [ 2013 Sc.] [ 2018 compt.]
  25. What are the uses of National Income Accounting ? [ 2007 Sc.] [ 2009 Sc.] [ 2013 Arts]
  26. What are the precautions while calculating National Income ? [ 2018 Arts]
  27. What is National Income ? Discuss the method of measuring National Income .  
[ 2014 Sc.] [ 2015 Sc.] [ 2016 Sc.]  
[ 2018 Sc.] [ 2018 compt.]
  28. Explain the income and expenditure method of calculating National Income .  
[ 2009 Sc.] [ 2013 Arts] [ 2015 Arts]
  29. Give an outline of steps involved in the estimation of National Product with the help of  
Income Method . [ 2014 Arts]
  30. Explain the expenditure method of calculating National Income . [ 2011 Sc.]
  31. Both Domestic Income and National Income are the sum total of factor income , then how are they  
different ? [ 2014 Arts]

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**END OF THE UNIT VI**

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**2020**

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