Module I
(Introduction to Macro Economics and National Income)
Concepts of National Income

GNP, NNP, GDP, NDP, Per Capita Income, Personal Income and Disposal Income

<u>GNP (Gross National Product)</u>

GNP is the total market value of all final goods and services produced in a year plus net income from abroad. This is the basic social accounting measure of the total output or aggregate supply of goods and services. It is represented as,

GNP = C + I + G ± NX ± NR 1)

Here,

C = Consumers goods and services to satisfy, the immediate needs and wants of the people

I = Gross Private Domestic Investment

G = Goods and Services produced by Government

NX = (Export Receipts – Import Payments) = net income from abroad i.e. net export of goods and services

NR = Net Receipts of Indian factors from abroad

Thus, GNP is the total amount of current production of final goods and services. The boundaries of GNP are determined by the citizens of a country

Topic 2. Concepts of National Income Contd…

- GNP includes market value of only final goods and services.
- It is simply the process of adding up final market values of all the final goods and services produced in an economy during a given period of time, usually a year.
- GNP is calculated at Market Prices and at Factor Cost.
- GNP at factor cost is obtained by subtracting net indirect taxes from GNP at market prices.

GNP at Factor cost = GNP at market price - Net indirect taxes i.e.

GNP at Factor cost = GNP at market prices - (Total indirect taxes - Subsidies) 2)

- It do not consider the value of an intermediate goods and services to avoid the double counting problem.

<u>NNP (Net National Product)</u>

NNP is the total value of final goods and services produced in the country during a year after deducting the depreciation.

NNP = Gross National Product - Depreciation 3)

Depreciation implies in the production of GNP, during a year, some capital is used up or consumed i.e. equipment, machinery etc. the capital goods wear out or undergo depreciation. Capital goods fall in value due to its use in production process. Hence, we deduct the charges for depreciation from the gross national product, to get the NNP.

Topic 2. Concepts of National Income Contd…

<u>Gross Domestic Product (GDP)</u>

GDP refers to the value of final goods and services produced within the country in a particular year. GDP is different from GNP. A part of GNP may be produced outside the country i.e. NR

GDP = C + I + G ± NX 4)

The boundaries of GDP are determined by the geographical limits of a country.

Difference between GDP and GNP is due to the "net revenue from abroad."

If the citizens of a country are earning more from abroad than foreigners are earning in that country, GNP exceeds GDP.

If the foreigners in the country are earning more than its citizens are earning abroad, GNP is less than GDP.

<u>Net Domestic Product (NDP)</u>

NDP is obtained by subtracting the depreciation from the GDP.

NDP = GDP – Depreciation 5)

NDP and NNP are two different concepts as NNP includes NR whereas NDP not.

NDP > NNP if Net Factor Income (NR) is negative

NDP < NNP if Net Factor Income (NR) is positive

Topic 2. Concepts of National Income Contd…

National Income at Factor Cost:- means sum total of all income earned by resource suppliers for their contribution of land, labour, capital and entrepreneurial ability which go into the years net production. National income at factor cost shows how much it costs society In terms of economic resources to produce the net output. We use the term national income for the national income at factor prices.

National Income at factor cost = Net national product = (National Income at market prices) - (indirect taxes +Subsidies) 6)

<u>Personal Income</u>

Personal income is the sum of the income actually received by individuals or households during a given year. Personal incomes earned are different from national income.

This includes all of the income that is received by individuals, but not necessarily earned. Examples of this include social security benefits, unemployment compensation, welfare payments, benefits for veterans, and food security. Individuals also contribute income which they do not receive. This includes corporate profits that are undistributed and the contribution of employers to Social Security.

PI = NI + income received but not earned - income earned but not received 7)

PI = NI + Transfer Payments - Social Security - contributions - corporate income taxes -undistributed corporate profit 8)

Topic 2. Concepts of National Income Contd…

Disposable Personal Income (DI)

There are other personal taxes which are not considered when calculating personal income. In order to get disposable personal income we have to subtract these personal taxes from personal income.

DI = PI - Personal Income Taxes **9)**

Disposable personal income reflects what people actually have that they can spend. It is also a result of consumer spending as well as private saving.

Per Capita Income (PCI)

PCI is a measure of the amount of money earned **per** person in a nation or geographic region. It can be used to determine the **average per**-person **income** for an area and to evaluate the standard of living and quality of life of the population.

According to World Bank (2018), India has PCI of US $ 7,680 at PPP.

Question to be Studied

Q. 1. Explain the concepts of GDP, GNP, NDP, NNP.
Q. 2. Define National Income at Factor Cost, PCI, PI and DI.

Thanks