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Measuring national income is crucial for understanding a countrys economic performance and growth. National income represents the total value of goods and services produced within a country over a specific period. There are three primary methods used to measure national income: the income method, the output method, and the expenditure method. Each method provides a different perspective on the economys performance.The income method focuses on the earnings of individuals and businesses, the output method looks at the total value of goods and services produced, and the expenditure method examines the total spending in the economy. These methods of measuring national income aim to explain these methods and their significance in calculating national income. National income refers to the monetary value of the total output of goods and services produced in an economy over a specific period.Uses of National Income StatisticsMeasuring the level and growth rate of national income is crucial for tracking:The rate of economic growthChanges in living standardsChanges in income distribution among different groupsGross Domestic Product (GDP)The total value of goods and services produced within an economy is known as Gross Domestic Product (GDP). It is used to measure changes in economic activity. GDP also includes the output of foreign-owned enterprises operating in a country through foreign direct investment.There are three methods to calculate GDP, and all should give the same result:National output = National expenditure (Aggregate demand) = National incomeThe formula for GDP is:GDP = C (Household spending) + I (Capital investment spending) + G (Government spending) + (X (Exports) - M (Imports))Methods for Calculating GDPProduct Method:In this method, all goods and services produced in various industries during a year are added together. This is also called value-added GDP or GDP at factor cost.In India, this includes sectors like agriculture, mining, construction, electricity, gas, water supply, transport, communication, trade, banking, real estate, public administration, and defence.It represents the gross value added during production.Income Method:This method calculates GDP as the sum of all factor incomes generated within the economy, including wages, rent, interest, and profit.Expenditure Method:GDP is calculated by adding up all spending on final goods and services within the economy in a year.Imports are subtracted from this total.The final value is the net export, which can be positive or negative.GDP at Factor CostGDP at factor cost is the net value added by all producers within the country. It is calculated as:GDP at Factor Cost = Net Value Added + DepreciationComponents include:Wages and salaries (employee compensation)Operating surplus (business profits of incorporated and unincorporated firms)Mixed income of the self-employedAlthough conceptually equal to GDP at market prices, the factor cost and market price may differ due to taxes and subsidies.Net Domestic Product (NDP)NDP represents the net production of the economy during a year after accounting for depreciation (the wear and tear of capital equipment).NDP = GDP at Factor Cost - DepreciationNominal and Real GDPNominal GDP: Measured at current market prices, reflecting the value of goods and services in monetary terms.Real GDP: Measured at constant prices of a base year, reflecting the actual value of goods and services without the effect of inflation.National Income Measurement MethodsIncome Method:National income is calculated as the total income earned by factors of production (labour, land, capital, and entrepreneurship).It includes wages, rent, interest, profit, and mixed income of self-employed individuals.Formula:National Income = Compensation to employees + Operating surplus (W + R + P + I) + Net Income + Net Factor Income from abroadProduct/Value-Added Method:National income is calculated by determining the monetary value of all final goods and services produced during a year.Intermediate goods, used in production, are excluded to avoid double counting.The value-added approach calculates the value at each stage of production.Formula:National Income = Gross National Product - Cost of Capital - Depreciation - Indirect TaxesExpenditure Method:National income is calculated based on the total spending on goods and services in the economy.It includes private consumption, government spending, gross capital formation, and net exports (exports minus imports).As mentioned earlier, the expenditure flow is employed to determine national income.The Expenditure method can be applied to calculate NI as follows:NationalIncome+NationalProduct+NationalExpenditure=National Income+National Product+National Expenditure=National Expenditure.So, the ideas of National Income were thoroughly discussed above. Students who are preparing for various exams such as UPSC and SSC. National income is a critical concept in macroeconomics, often used to gauge an economys overall health. It reflects the total value of all goods and services a country produces within a specific period, typically one year. By understanding national income, policymakers, businesses, and individuals can make informed decisions about economic strategies, investments, and policies. Measuring national income is fundamental for evaluating a countrys progress and comparing economic performance over time and across borders. However, calculating national income is not as simple as adding numbersits a complex process requiring precision, appropriate methods, and thoughtful adjustments. It involves deciding how to categorize different forms of income, dealing with hidden economic activities, and ensuring that all calculations are consistent. In this article, we will take you through the methods of measuring national income, compare different approaches, and explore the challenges that often come into play. To make things easier, consider national income as the sum of everyones economic contributionswhether its an employees wages, a companys profits, or a farmers production. Lets dive deeper into the different ways economists measure this vital statistic. National income is the total value of income earned by residents of a country through productive activities. It includes wages, interest, rent, and profitsessentially any form of income that contributes to the economy. National income provides a comprehensive picture of economic activity, highlighting the value produced domestically and earnings from investments abroad. To provide some context, economists have different perspectives on what drives national income. From the Keynesian perspective, national income is influenced by aggregate demandthe total demand for goods and services within the economy. Keynesians advocate for the role of government spending and policies to regulate demand, especially during economic downturns. On the other hand, classical economists argue that supply factors, like the availability of labor and capital, drive national income. They believe that markets naturally adjust to achieve equilibrium without much government intervention. Now that we understand national income better, lets look at the three primary methods used to measure it: the product (or value-added), revenue, and expenditure. Each of the three main measures of national income offers unique insights into a countrys economic performance. These approaches allow us to calculate national income by focusing on different aspects of the economy, such as production, income generation, and spending patterns. The product or value-added method measures national income by calculating the value added at each production stage. Imagine youre following a product from the time raw materials are harvested to the point where it reaches the consumer. By calculating the value added at each stage, we can determine the contribution of different producers without counting the same value more than once. To help illustrate, lets walk through a simple example of how bread is produced: A farmer sells wheat to a miller for $50.The miller then processes the wheat into flour and sells it to a bakery for $80.Finally, the bakery uses the flour to make bread, which it sells to consumers for $120. Now, lets break down the value added at each step: The farmer contributes $50 by growing and selling the wheat.The miller contributes $30 by processing the wheat into flour, which is calculated as $80 (selling price)$50 (cost of wheat).The bakery adds another $40 by baking and selling the bread, calculated as $120 (selling price)$80 (cost of flour). So, the total value added is $50 + $30 + $40 = $120, representing the breads final value. The formula used to calculate national income using the value-added method is: \(\text{GDP}_{\text{Market Price}} = \Sigma (\text{Value Added at Each Stage of Production}) \) This formula tells us that GDP is calculated by adding up all the value added at each stage of production across all sectors of the economy. The value-added method is particularly effective because it helps to avoid double counting, a common issue when intermediate goods are counted multiple times. By focusing on the value added at each step, we ensure that only the contribution of each producer is included in the national income. However, this method does have its challenges. It can be difficult to account for the informal economy, especially in developing nations where many transactions are not officially recorded. Additionally, gathering detailed data for every production process is often impractical, which can limit the methods accuracy. The income method focuses on the income generated by all factors of production in an economy, such as wages for labor, rents for land, interest for capital, and profits for entrepreneurship. This method provides insights into how income is distributed among the different sectors of the economy. Imagine an economy with the following income distribution: Wages paid to workers amount to $500 million.Rents earned from leasing properties add up to $100 million.Interest earned from savings and investments totals $80 million.Business profits are $300 million. To calculate the national income, we add these components together: \(\text{National Income} = W + R + I + P \) \(\text{National Income} = 500 + 100 + 80 + 300 = 980 \, \text{million dollars} \) Where: \(W \) represents wages and salaries, \(R \) represents rental income, \(I \) represents interest income, \(P \) represents profits. This method is beneficial for understanding the contribution of labor and capital to the economy. It gives us a picture of how wealth is generated, making it easier to analyze income inequality or assess economic sectors. One of the main challenges of this method is that it can be difficult to capture informal earningsfor example, income from cash-based transactions or self-employment. Additionally, distinguishing between different types of income can be complex, especially for people who derive their income from multiple sources. The expenditure method takes a different approach. It measures national income by calculating the total expenditure on final goods and services in the economy. This method assumes that all the income earned within an economy will eventually be spent on consumption, investment, government purchases, or net exports. The components of the expenditure method are: Consumption (C): Households spend on goods and services, like groceries or rent. Investment (I): Spending by businesses on capital goods, like new equipment or construction of factories. Government Spending (G): Spending by the government on public services, including healthcare, education, and infrastructure. Net Exports (X M): The value of exports minus imports. This measures the contribution of international trade to national income. Lets consider an example where: Consumption by households is $1 trillion.Investment by businesses is $300 billion.Government spending is $500 billion.Net exports amount to -$30 billion (indicating that the country imports more than it exports). Using the expenditure method, we calculate: \(\text{GDP}_{\text{Market Price}} = C + I + G + (X M) \) \(\text{GDP} = 1 \, \text{trillion} + 300 \, \text{billion} + 500 \, \text{billion} 30 \, \text{billion} = 1.77 \, \text{trillion dollars} \) The expenditure method aligns closely with Keynesian economics, which emphasizes the importance of aggregate demand. By examining how much is spent in the economy, it provides insights into what drives growthwhether it is consumer spending, government policies, or business investments. Despite its usefulness, the expenditure method faces certain limitations. For example, it can underestimate the informal sector, where transactions must be reported more. Additionally, fluctuations in net exportswhich can be influenced by international economic conditionsmay cause discrepancies when comparing different economies. When measuring national income, its essential to understand how much income is produced and how that income changes over time or compares to other countries. Inter-temporal comparisons help track national income over different periods to assess economic growth and improvements in living standards. To make accurate comparisons over time, economists use real GDP, which adjusts for inflation. Using real GDP, we can determine whether an increase in national income is due to actual growth or simply rising prices. In addition, per capita GDPwhich divides national income by the populationprovides insights into changes in living standards. Rapid population growth, for instance, can reduce per capita GDP even if overall GDP is growing, indicating that the average standard of living may not improve. International comparisons of national income require adjustments for factors like currency exchange rates and purchasing power parity (PPP). PPP adjusts income figures to reflect differences in the cost of living across countries, providing a more accurate picture of economic well-being. For instance, $1 can buy significantly more in some developing countries than in developed nations, and PPP helps adjust for these differences. Despite its importance, measuring national income is challenging. Lets explore some of the key obstacles. Double counting is one of the most common issues, where intermediate goods are counted multiple times, inflating GDP figures. For instance, if wheat and the bread made from it are counted, the resulting GDP value would be artificially high. The value-added method helps address this problem by ensuring that only the additional value at each stage is included. A significant part of economic activity occurs in the informal sector, particularly in developing countries. Transactions in these sectors must be officially recorded, leading to an underestimation of national income. This makes it challenging for policymakers to understand economic performance accurately. National income calculations also exclude non-market activities like household chores or volunteer work. While these activities contribute significantly to well-being, they are often excluded because there is no formal transaction or clear market value. Estimating the value of such activities could provide a more complete picture of economic output, but this remains a methodological challenge. Traditional measures of national income do not account for environmental costs such as resource depletion or pollution. As the world becomes more aware of sustainability, there is a growing need for metrics like Green GDP, which adjusts for environmental degradation to give a more holistic picture of economic health. Measuring national income is a complex yet essential task that provides a snapshot of an economys health. The product, income, and expenditure methods bring valuable perspectives, helping us understand how wealth is produced and distributed. We can gain insights into economic growth, development, and global standing by comparing national income over time or across countries. While each method has its strengths, challenges like double counting, informal activities, and unaccounted environmental costs must be addressed to ensure that national income statistics accurately reflect reality. National income is the total value of all goods and services produced within a country during a specific period, often one year. It reflects the income generated by residents from productive activities, including wages, rents, interest, and profits. National income helps assess economic health, track growth, guide policymaking, and compare economic performance over time or across countries. National income is typically measured using three methods: Product or Value-Added Method: Focuses on the value added at each stage of production across all sectors. This method ensures intermediate goods are not counted multiple times. Income Method: Adds up the income earned by factors of production, such as wages, rents, interest, and profits. Expenditure Method: Measures the total spending on final goods and services, including consumption, investment, government spending, and net exports. The value-added method ensures that only the additional value created at each production stage is included. For example, if a farmer sells wheat to a bakery, only the additional value contributed by the bakery when converting wheat into bread is counted in GDP, avoiding the issue of counting wheat and bread separately. The income method struggles with accurately capturing informal or unreported income, especially in economies with large informal sectors. It can also be challenging to categorize different types of income, particularly when individuals earn from multiple sources, such as salaries, dividends, or rental income. The expenditure method measures national income by calculating total spending on final goods and services. It aggregates household consumption, business investments, government spending, and net exports. This approach aligns with Keynesian economics by emphasizing the role of aggregate demand in driving economic growth. International comparisons of national income require adjustments for currency exchange rates and purchasing power parity (PPP). PPP accounts for differences in the cost of living between countries, offering a more accurate picture of economic well-being than nominal income figures alone. Real GDP adjusts for inflation, providing a clearer picture of economic growth over time. It helps distinguish between actual increases in production and mere price rises, allowing economists to evaluate whether living standards are improving. Informal activities, like cash-based transactions or self-employment, often go unreported and are not captured in official national income figures. This can lead to underestimations, particularly in developing economies where informal sectors play a significant role. Traditional measures do not account for non-market activities, such as household work or volunteer services, which contribute to well-being but lack formal transactions. Additionally, they exclude environmental costs, such as resource depletion or pollution, leading to incomplete assessments of economic health. Metrics like Green GDP adjust traditional GDP figures to account for environmental degradation and resource depletion. Green GDP offers a more comprehensive view of sustainable economic performance, considering both economic output and environmental impact. Thanks for reading! Share this with friends and spread the knowledge if you found it helpful.Happy learning withMASEconomics Measuring national income is crucial for understanding a countrys economic performance and growth. National income represents the total value of goods and services produced within a country over a specific period. There are three primary methods used to measure national income: the income method, the output method, and the expenditure method. Each method provides a different perspective on the economys performance.The income method focuses on the earnings of individuals and businesses, the output method looks at the total value of goods and services produced, and the expenditure method examines the total spending in the economy. These methods of measuring national income aim to explain these methods and their significance in calculating national income. National income refers to the monetary value of the total output of goods and services produced in an economy over a specific period.Uses of National Income StatisticsMeasuring the level and growth rate of national income is crucial for tracking:The rate of economic growthChanges in living standardsChanges in income distribution among different groupsGross Domestic Product (GDP)The total value of goods and services produced within an economy is known as Gross Domestic Product (GDP). It is used to measure changes in economic activity. 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Students who are preparing for various exams such as UPSC and SSC. National income measures the income generated by a country through the production activities that are carried out within a country during a specific period of time. A circular flow of income and expenditure exists within an economy, where factor income is earned from the production of goods and services, and the income is spent on the purchase of produced goods. Thus, there are three alternative methods of computing national income. This includes:Product/Value Added MethodIncome/Factor Income MethodExpenditure Method Product/Value Added MethodThe value added method/ product method is also known as the output method or inventory method. In this method, the sum total of the gross value of the final goods and services in different sectors of the economy like industry, service, agriculture, etc. is acquired for the current year by determining the total production that was made during the specific time period. The value obtained is the gross domestic product. Thus, according to this method,GDP= Total product of (industry + service + agriculture) sectorSymbolically, GDP= (P Q)Where, P= Market price of goods and servicesQ= Total volume of OutputSometimes goods produced by one sector is further processed by another sector. These goods are termed as intermediate goods and are already included while determining the value of final goods.So, in order to avoid the problem of double counting of value of goods, the product method if further categorized into two approaches:The Final Goods ApproachIn this method, only the value of final goods and services are computed while estimating GDP, regardless of any intermediate goods and their processing. This method takes into account only those goods and services that purchased and consumed by the final consumers in the economy.The Value Added MethodIn the value added method of measuring national income, the value of materials added by producers at each stage of production to produce the final good is considered. The difference between the value of output and inputs at each stage of production is the value added. Thus,Value added= Value of output Cost of intermediate goodsIf the differences are added up for all production sectors in the economy, the value of GDP is computed. The table below clearly explains this method:ProducersStage of ProductionSelling Price (Rs.)Cost Price (Rs.)Value Added (Rs.)FarmerWheat60060MillerFlour906030BakerBread1009010Total250150100Table 1: Estimation of National Income by Value Added Method Income/Factor Income MethodIncome method is also termed as factor income method or factor share method. Under this method, national income is measured as the total sum of the factor payments received during a certain time period.The factors of production include land, labor, capital, and entrepreneurship. Individuals who provide these factor services get payment in the form of rent, wages/salaries, interest, and profit respectively. The total sum of income received by these individuals comprise the national income for a given period of time.Besides these, there are professionals who employ their own labor and capital like advocates, doctors, barbers, CAs, etc. The income of these individuals are called mixed incomes and are also accounted for calculating the national income. However, income received in the form of transfer payments are not included. Thus, according to this method,GDP= Rent (Rental incomes on agricultural and non-agricultural properties)+ Wages/Salaries (Wages and salaries earned by employees including supplements)+ Interest (Net interest earned by individuals other than governmental bodies)+ Undistributed Profit (Profits earned by businesses before payment of corporate taxes and liabilities)+ Dividends+ Direct taxes+ Depreciation Expenditure MethodThe expenditure method measures the national income as the sum total of expenditures made by individuals on personal consumption, firms on private investments, and government authorities on government purchases.Since incomes from production are earned as a result of expenditure made by other entities on the produced goods and services within the economy, the result of expenditure method should be same total as the product method. However, with an exception of avoiding intermediate expenditure in order to evade the problem of double counting, national income under expenditure method can be expressed asGDP= C + I + G + (X M)Where, C= Consumption Expenditure (Expenditure on durable goods such as furniture, cars, and non-durable goods such as food)I= Investment Expenditure (Private investment in capital goods or producer goods such as buildings, machinery, etc.)G= Government Expenditure (Government expenses for maintaining law and order, developing pre-requisites of development, etc.)(X-M)= Net Export (Difference between import and export) Explain the various methods of measuring national income.Explain any two methods of measuring national income.State the three methods of measuring national income.Explain briefly different methods of estimation of national income.National income is generally defined from three angles, viz. From the point of view of production, distribution and disposition. This is because National Income is always viewed at National Income = National product = National Dividend = National Expenditure i.e., NI = NP = ND = NE. As there are three views of National Income accordingly, there are three methods of estimating National Income. They are:Total Output (Production Method):(also known as Value Added Method/Inventory Method)Total Income Method:(also known as Dividend Method/Factor Cost Method)Total Expenditure Method:(also known as Aggregate Outlay method)1.Total (aggregates) Output (Production Method): The national income is calculated on the basis of the gross value of the final production of goods and services manufactured in various sectors, i.e., primary, secondary, and tertiary, during a given period of time.The primary sector is further divided in sub-sectors like agriculture, forestry, fishing, etc.The secondary sector is sub-divided into manufacturing, construction, gas, electricity, etc.The tertiary sector is further divided into banking, transport, trade, communication, hotels, etc.The national income is calculated as follows: The value of all final goods and services produced in different sectors of the economy during a year is estimated at market price.(plus) The Gross Value of all Capital goods, i.e., Gross Investment in the economy during a year(plus) The Value of services rendered by the government, which is measured in terms of government expenditure on the purchase of various goods and services.(plus)Net Income from Exports, i.e., the difference between Exports (X) and Imports (M). This may be positive or negative.(plus) Net foreign Income (NFI), which is equal to (X) (M) + (R P). This may be positive or negative.(minus) Depreciation or Replacement Allowances or capital consumption in the country during a year.(minus) Indirect taxes (INT) collected by the government during a year.(Plus) value of substitutes given to consumers and producers during the year.2. Total Income Method: Whenever goods and services are produced in the economy, income is also generated and distributed among the factors of production. Different factors of production are paid for their productive services rendered to an organisation; thus, labour gets wages, land gets rent, capital gets interest, and entrepreneurs get profits. The various incomes that are included in this method are:Wages/salaries to employees.Rent of Land.Interest for capital used.Profits to the entrepreneur.3. Total Expenditure Method: The various sectors-the household sector, the business sector, and the government sectoreither spend their incomes on consumer goods and services or save a part of their income, or we can say that they spend a part of their incomes on non-consumption goods. These expenditures are grouped as:Private ConsumptionPrivate InvestmentPublic ConsumptionPublic Investment.National income = Private Consumption and Investment + Public (government) Consumption and Investment.shaalaa.comThe methods of measuring national income are as follows:Income method: The factor cost method is another name for the income technique of calculating national income. This method takes a distribution-side approach to national income. The following points can be used to describe this method:This approach adds up the income payments that each person of a nation receives over the course of a year. Income tax returns, reports, books of accounts, and estimates from modest income sources are the sources of the income data.This technique adds together the profits, wages, interest, and rents that land, labour, capital, and entrepreneurs have earned. Gross National Product is calculated as the sum of factor income. Nevertheless, the income obtained through transfer payments are ignored in this approach.The income technique is used by the Central Statistical Organisation's national income committee in India to total the revenue from trade, transportation, the liberal and professional arts, public administration, and domestic services.GNPaccordingtothe incomemethoddiscalculatedasfollows:NI = Rent+ Wages + Interest +Profit+ Mixed Income + Net income from abroad.Expenditure method: The Outlay Method is another name for the expenditure method of calculating national income. This approach determines national income by adding up all of the investment and consumption expenditures made by all of the people, businesses, and government of a nation over the course of a year. Thus, grossnationalproductisfoundbyusingthefollowingformula: NI = C+ I + G + (X M) + (R P). The following points can be used to describe the expense method:Private Final Consumption Expenditure (C): Households may spend their private final consumption money on services like transportation or healthcare or on durable items like cars, computers, televisions, and washing machines that are typically used for a longer period of time. They may also spend their money on non-durable items like food that are consumed right away. Private final consumption spending is factored into national income.Gross Domestic Private Investment Expenditure (I): It describes the money spent by private companies on upgrades, replacements, and new ventures. Gross domestic private investment expenditures are factored into national income.Governments Final Consumption and Investment Expenditure (G): Households may spend their private final consumption money on services like transportation or healthcare or on durable items like cars, computers, televisions, and washing machines that are typically used for a longer period of time. They may also spend their money on non-durable items like food that are consumed right away. Private final consumption spending is factored into national income.Net Foreign Investment/Net Exports (X M): This is the difference between a nation's imports and exports during a one-year period. The value of net exports is factored into national income.Net receipts (R P): It refers to the difference between the amount spent domestically by foreigners (R) and the amount spent overseas by locals (P). The value of net receipts is factored into national income.shaalaa.comStudents should refer to the answers according to their question and preferred marks.Is there an error in this question or solution?With the increase in income, both consumption and savings increase.Total Cost and Total Revenue.Total Cost and Total Revenue.Unpaid services are not included in national income.Explain various types of investment expenditure.Explain in detail saving function with schedule and diagram.Find national income and private income: (Rs crore) (i) Wages and salaries 1,000(ii) Net current transfer to abroad 20(iii) Net factor income paid to abroad 10(iv) Profit 400(v) National debt interest 120(vi) Social security contributions by employers 100(vii) Current transfers from government 60(viii) National income accruing to government 150(ix) Rent 200(x) Interest 300(xi) Royalty 50C = 100 + 0.4 Y is the Consumption Function of an economy where C is Consumption Expenditure and Y is National Income. Investment expenditure is 1.100. Calculate(i) Equilibrium level of National Income.(ii) Consumption expenditure at equilibrium level of national income.Giving reason explain how should the following be treated in estimating national income:i. Expenditure on fertilizers by a farmer.ii. Purchase of tractor by a farmer.Which of the following affects national income? (Choose the correct alternative)(a) Goods and Service tax(b) Corporation tax(c) Subsidies(d) None of the aboveExplain the precautions that should be taken while estimating national income byexpenditure method.Other things remaining unchanged, when in a country the price of foreign currency rises, national income is: (choose the correct alternative)a. Likely to riseb. Likely to fallc. Likely to rise and fall bothd. Not affectedGiving reason explain how should the following be treated in the estimation of national income:Expenditure by a firm on payment of fees to a chartered accountantGiving reason explain how should the following be treated in the estimation of national income:Purchase of refrigerator by a firm for own useCalculation National Income and Personal Disposable Income:(Rs crores)1Rent1002Net current transfers to rest of the world303Social security contributions by employers474Mixed income6005Gross domestic capital formation1406Royalty207Interest1108Compensation of employees5009Net domestic capital formation12010Net factor income from abroad(-)1011Net indirect tax15012Profit200Giving reason explain how the following should be treated in the estimation of nationalincome:Payment of interest by an individual to a bankCalculate the 'National Income' and 'Private Income' :(Rs in crores)1Rent2002Net factor income to abroad103National debt interest154Wages and salaries7005Current transfers from government106Undistributed profit207Corporation tax308Interest1509Social security contributions by employers10010Net domestic product accruing to government25011Net current transfers to rest of the world512Dividends50Calculate 'Net National Product at Market Price' and 'Personal Income'.(Rs crore)(i)Transfer payments by government7(ii)Government final consumption expenditure50(iii)Net imports-10(iv)Net domestic fixed capital formation60(v)Private final consumption expenditure300(vi)Private income280(vii)Net factor income to abroad-5(viii)Closing stock8(ix)Opening stock8(x)Depreciation12(xi)Corporate tax60XiiRetained earnings of corporatio20Giving reasons explain how should the following be treated in the estimation of nationalincome:Purchase of machinery by a factory for own useCalculate investment expenditure from the following data about an economy which is in equilibrium:National income = 1500Autonomous consumption expenditure = 300Investment expenditure = 300Calculate national income and gross national disposable income from the following:(Rs Arab)1Net current transfers to abroad52Government final consumption expenditure1003Net indirect tax804Private final consumption expenditure3005Consumption of fixed capital206Gross domestic fixed capital formation507Net imports(-)108Closing stock2510Net factor income to abroad10How should the following be treated in estimating the national income of a country? You must give a reason for your answer.Taking care of aged parentsHow should the following be treated in estimating the national income of a country? You must give the reason for your answerExpenditure on providing police services by the governmentCalculate 'Marginal Propensity to Consume' from the following data about an economy which is in equilibrium:National income = 800Autonomous consumption expenditure = 100Investment expenditure = 100How should the following be treated while estimating national income? You must give the reason in support of your answer.Bonus paid to employeesHow should the following be treated while estimating national income? You must give the reason in support of your answer.Addition to stocks during a yearHow should the following be treated while estimating national income? You must give the reason in support of your answer.Purchase of taxi by a taxi driver.Give reasons or explain the followingThe propensity to save depends upon the level of income.In an economy, S = 100 + 0.6 Y is the saving function, where S is Saving and Y is National Income. If investment expenditure is 1,100, calculate:(1) Equilibrium level of National Income(2) Consumption expenditure at equilibrium level of National Income.Write explanatory answer:Explain the output method of measuring national income.State whether the following statement is True or FalseTotal Revenue = Total quantity x Price.Distinguish between.Personal income and National Income.Fill in the blanks using proper alternatives given in the bracketsPersonal Income - Direct Tax = _____Choose the correct answer:When income increases, the consumption expenditure _____.(a) increases(b) decreases(c) becomes equal(d) becomes zeroWrite Explanatory answer. (Any Two)What is national income. Explain how national income is mesured by output methodDefine of Explain the following concept.Net earnings from foreign tradeState whether the following statements are TRUE or FALSE with reason.National income is a flow concept.Give reasons or explain the following statement:The concept of national income has an important place in economic development.Answer in brief.Give different definitions of National Income.Distinguish between Illegal income and Transfer income.Answer the following question:What are the features of national income?Answer the following question:Explain the concept of Gross domestic product at market prices.State the precautions while using expenditure method to measure national income.Explain the income method of measuring national income.State with reason whether you agree or disagree with the following statement:Many precautions are to be taken while estimating national income by income method.State with reason whether you agree or disagree with the following statement:Gross National product and Gross Domestic product are same concepts.State with reason whether you agree or disagree with the following statement:The money value of intermediate goods is not included in the estimation of national income.Answer in detail:Explain the Output method of measuring National income.Answer in detail:Explain the 'Final Good Approach' to avoid double counting of goods and services in the estimation of national income.Distinguish between:Gross national product and Gross domestic product.Distinguish between:Net national product and Net domestic product.Distinguish between:Gross National Product and Net National ProductWrite short note on:Value added approachWrite short note on:Personal disposable incomeWrite short note on:Net national product at factor costDefine or explain the following concept:Final goodsGive reason or explain the following statement:Income from second hand sale of goods is excluded from national income.Give reason or explain the following statement:National income estimates are accurate in India.Give reason or explain the following statement:Old age pension is transfer income.Give reason or explain the following statement:Paid services are included in national income.State whether the following statement is true or false.GDP includes net income from abroad.State whether the following statement is true or false.Services of housewives are included in national income.Fill in the blank with appropriate alternatives given belowGDP(FC)= GDP(MP)_____Fill in the blank with appropriate alternatives given belowIn India, the responsibility for the calculation of national income rests with _____.Fill in the blank with appropriate alternatives given belowNational income is _____ concept.Fill in the blank with appropriate alternatives given belowPaper purchased by a publisher is _____.Define the following: Income from property and entrepreneurshipIdentify and explain the following concept:Shobha collected data regarding the money value of all final goods and services produced in the country for the financial year 2018-2019.Find the odd wordConcepts of national income -Complete the following statement.NNP is obtained by _____.Assertion and Reasoning type question.Assertion (A): In national income, value of only final goods and services produced in the economy are considered. Reasoning (R): National income is always expressed in monetary terms.Study the following table, figure, passage and answer the question given below it.Components of GNP for the year 2018In croresConsumption200Investment300Govt.Expenditure400Net export- 100Net receipts- 50Depreciation100A. Complete the formulaGNP = C + `square` + G + (X - M) + `square` (1m)B.Calculate Gross National Product & Net National Product from the above data. (3m)Explain the concept of product (real flow) with the help of above diagram. (2m)Explain the concept of Money flow with the help of above diagram. (2m)Net National product at factor cost is also known asWhich is the largest figure?Per capita income is obtained by dividing the National income by the _____.GNP = _____ + Net factor income from abroad.GNP = _____ + Net factor income from abroad.When net factor income from abroad is deducted from NNP, the net value is_____.Write the formula for calculating GNP.Trace the relationship between GNP and NNP.Define GDP deflator.Write a short note on per capita income.Differentiate between personal and disposable income.Explain briefly NNP at factor cost.Explain the meaning of non-market activities.Nominal GNP is same as _____.Real GNP is same as _____.Consider the following statements and identify the right ones.Personal income refers to the income of individuals of a country.The income at their disposal after paying direct taxes is called disposable income.NNPFC=Accounting of National Income at constant prices is known as _____.Which one is true?NNPMP =?Net National Income at Factor Cost is called?Which of the following is correct?If economic subsidies are added to and Indirect taxes are substracted from the national income at market prices, then it will be equal to _____.If for a country net factor income from abroad is negative then:The market value of all final goods and services produced in an economy over a year is called:Total national income divided by total population is known as:Which of the following is not a component of domestic income?If factor cost is greater than marker price, it means that:Identify and explain the following concept.Shobha collected data regarding the money value of all final goods and services produced in the country for the financial year 2019-20.Give economic term:The volume of commodities and services turned out during a given period counted without duplication.How should the following be treated in estimating National Income of a Country? Give valid reasons.Expenditure on upgradation of fixed asset by a firm.What is National Income?The different methods of calculating national income are the Income Method, Production (Value-Added) Method, and Expenditure Method. National Income serves as a critical indicator of a country's economic health and progress. It quantifies the total value of all goods and services produced within the country's borders during a specific time period. To accurately measure this economic metric, economists employ various methods, each offering a unique perspective on economic activity. The topic Methods of Calculating National Income is one of the important concepts in the UPSC/IAS 2023 Economy syllabus which is discussed in this article in detail. Three Methods of Calculating National Income How is National Income calculated? How is National Income Calculated? After depreciation, the total worth of final products and services generated by normal residents throughout an accounting year is called the national income. Goods and services are generally produced by the production units. They do it by utilising four factors of production: land, labour, capital, and entrepreneurship. These four factors of production work together to create goods and services, adding value to existing goods. This additional value, or net domestic product, is dispersed among the owners of the four components of production, who receive rent, employee compensation, interest, and profit in exchange for their contribution to the production of products and services. The profits earned by the owners of the factors of production are used to acquire goods and services from the production units for consumption and investment. In a nutshell, manufacturing generates revenue. Income is utilised to fund spending, and spending, in turn, fuels more production. The circular flow of national income has three phases: Production, Income and Expenditure. Methods of Calculating National Income Methods of Calculating National Income The three methods of calculating national income are: Value Added Method Income Method Expenditure Method To enhance accuracy and comprehensiveness, economists often combine two or more methods to calculate National Income. This triangulation helps mitigate the limitations of individual methods and provides a more accurate depiction of an economy's performance. What is Value Added Method? Value added refers to the difference between the value of a firm's output and the value of the intermediate goods and services used in the production process. It represents the net contribution of a firm or a sector to the economy. The method involves breaking down the economy into different sectors such as agriculture, industry, and services. For each sector, the value added is calculated by subtracting the value of intermediate consumption (inputs used in production) from the value of output (goods or services produced). This ensures that only the additional value created at each stage is considered. One of the primary challenges in calculating National Income is the risk of double counting. Double counting occurs when the value of intermediate goods and services is included multiple times in the calculation process. The Value Added Method addresses this challenge by excluding intermediate consumption, focusing only on the value added at each stage. *Click Here to read more about Value Added Method What is the Income Method? The Income Method is one of the key approaches used to calculate a nation's National Income. It focuses on assessing the total income earned by individuals, businesses, and the government within an economy during a specific time period. This method provides insights into how the generated income is distributed among different factors of production, such as labor, capital, and land. By analyzing various sources of income, the Income Method offers a comprehensive view of the economic activity within a country. The method involves aggregating the different sources of income earned by various economic agents, including individuals, households, businesses, and the government. These sources of income include wages and salaries, rent, interest, profits, and taxes. *Click Here to read more about Income Method What is the Expenditure Method? The Expenditure Method focuses on estimating the total value of expenditures made by various economic agents within an economy during a specific time period, typically a year. By analyzing the expenditures made by consumers, businesses, government entities, and net exports (exports minus imports), the Expenditure Method provides insights into the overall economic activity and performance of a country. The Expenditure Method is based on the principle that the total expenditure in an economy is equal to the total income generated in that economy. It assumes that every transaction that involves spending contributes to the production of goods and services, and thus, to the generation of income. To avoid double counting, certain items such as intermediate goods (goods used in the production of other goods) are excluded, while taxes on products and subsidies are included. *Click Here to read more about the Expenditure Method Conclusion Calculating National Income is a complex endeavor that requires a comprehensive approach. By using different methods, economists and policymakers gain a multifaceted understanding of an economy's dynamics. While each method has its limitations, their combination helps provide a more accurate and holistic picture of economic health. FAQs Question: What are the primary methods used to calculate national income? Answer: The three primary methods used to calculate national income are the Production Method (or Value-Added Method), the Income Method, and the Expenditure Method. Each method looks at national income from a different perspective, such as production, income generation, or expenditure patterns in the economy. Question: What is the Production Method of calculating national income? Answer: The Production Method, also known as the Value-Added Method, calculates national income by summing up the value added by each industry or sector in the economy. It focuses on the contribution of goods and services produced during a specific period. Question: How does the Income Method measure national income? Answer: The Income Method calculates national income by adding up all the incomes earned by individuals and businesses in the form of wages, profits, rents, and interest. It measures the total factor income generated in the economy. Question: What role does the Expenditure Method play in national income calculation? Answer: The Expenditure Method calculates national income by summing up all the expenditures made by households, businesses, and the government. This method focuses on the spending side of the economy, including consumption, investment, government expenditure, and net exports. Question: What is the difference between GDP and GNP in national income accounting? Answer: Gross Domestic Product (GDP) measures the total value of goods and services produced within a countrys borders, while Gross National Product (GNP) includes the value of goods and services produced by a countrys residents, whether within the country or abroad. GNP adjusts GDP by adding income earned from abroad and subtracting income earned by foreign residents within the country. MCQs 1. Which method of calculating national income focuses on the value added by industries in the economy? A) Income MethodB) Expenditure Meth

for unreported or illegal incomes. The Expenditure Method tracks total spending on goods and services, useful for assessing demand, but it may involve double-counting and requires accurate data on consumption, investment, and net exports. These methods complement each other and together provide a comprehensive picture of national income. Q2: Analyze the role of the Expenditure Method in measuring national income, particularly in developing economies like India. Answer: The Expenditure Method measures national income by summing up consumption, investment, government spending, and net exports. In developing economies like India, this method is particularly useful in understanding patterns of consumption and investment, which are key drivers of economic growth. By examining government expenditure, the method also highlights the role of fiscal policy in economic development. However, it faces challenges like accounting for the informal sector, which constitutes a significant part of India's economy. Additionally, fluctuations in external trade can affect net exports, impacting the overall accuracy of national income estimates in developing countries. Q3: Compare and contrast the concepts of GDP and GNP. Discuss their relevance in understanding the economic performance of a country. Answer: Gross Domestic Product (GDP) and Gross National Product (GNP) are both key indicators of economic performance. GDP measures the total value of goods and services produced within a countrys borders, while GNP includes the value of goods and services produced by a countrys residents, both domestically and internationally. GDP is often used to assess domestic economic activity, but GNP provides a broader view by accounting for income earned abroad. For economies with significant international investment or migration, GNP offers a better understanding of economic performance. However, GDP remains the more commonly used metric as it reflects the output generated within the country's economy. Both metrics are important for evaluating the overall economic health of a nation. Previous Year Questions on National Income Question: Which method of national income calculation is most suitable for understanding sectoral contributions to the economy? A) Income MethodB) Production MethodC) Expenditure MethodD) Capital Formation Method Answer: B Explanation: The Production Method, also known as the Value-Added Method, is most suitable for understanding the contributions of different sectors to the economy by summing the value added at each stage of production. 2. UPSC CSE Mains 2020 (GS Paper 3): Question: "Evaluate the limitations of using Gross Domestic Product (GDP) as a measure of national income and development, especially in developing countries like India." Answer: GDP is a widely used indicator of economic activity, but it has limitations in measuring development, particularly in developing countries. It does not account for the informal sector, which constitutes a large part of India's economy. GDP also ignores income inequality, environmental degradation, and the overall well-being of the population. In countries like India, where a significant portion of economic activity occurs outside formal markets, GDP may underestimate the true scale of economic activity. Additionally, GDP focuses on economic output without considering the distribution of wealth or the sustainability of growth, making it an incomplete measure of national development. *The article might have information for the previous academic years, please refer the official website of the exam.Share on FacebookShare on TwitterHow likely are you to recommend Prepp.in to a friend or a colleague?Test will end in 00:00:00Test will end in 00:00:00View MoreView MoreTest will end on 31st May, 07:00 PMView MoreView More The government bookkeeping system that measures the health of an economy, projected growth, economic activity, and development during a certain period National income accounting refers to the government bookkeeping system that measures the health of an economy, projected growth, economic activity, and development during a certain period of time. It helps in assessing the performance of an economy and the flow of money in an economy. The double entry system principle of accounting is used to prepare the national income accounts.In the U.S., the Bureau of Economic Analysis (BEA), a part of the Department of Commerce, prepares and publishes national income accounts. Global economic figures are aggregated and distributed by the International Monetary Fund (IMF), the World Bank, and the Organization for Economic Cooperation and Development (OECD).SummaryNational income accounting is a double-entry accounting system used by governments to measure how well a countrys economy is performing.The value-added approach, income approach, and expenditure approach are different ways to calculate national income. They can be used in combination, depending on the concerned income group and sector.The statistics provided by national income accounting can be used by the government to set or modify economic policies, interest rates, and monetary policy.National Income Accounting EquationThe national income equation represents the relationship between national income and the economys expense, along with other attributes, as shown in the following equation:Where:Y National incomeC Personal consumption expenditureI Private investmentG Government spendingX ExportsM ImportsNational Income Accounting and Gross Domestic ProductGross Domestic Product (GDP), Net National Product (NNP), Gross National Product (GNP), personal income, and disposable income are the important metrics determined by national income accounting.However, the most commonly used measure of the economy is GDP. It is the cumulative value of products and services generated in an economy over a given period of time. Only the goods produced in the home country are included in the GDP, regardless of the nationality status of the company owners.The gross domestic product figure may not represent the correct value, as some goods may not even make it to the market, which makes it difficult to determine the true value of the market. Nevertheless, GDP reasonably represents the national output. The other economic measures can be derived from GDP.National Income Accounting MethodsThe following methods are used to measure national income:1. Product methodAlso known as the value-added method, the product method is based on the net value added to the product at every stage of production. In the product method, the economy is usually divided into different industry sectors, such as fishing, agriculture, and transport.The national income is calculated by adding the total output of the companies in the economy. The method shows the contribution of each sector to the national income, hence demonstrating the importance of different sectors relative to each other.2. Income methodIn the income method, the national income is measured by adding up the pretax income generated by the individuals and companies in the economy. It consists of income from wages, rent of buildings and land, interest on capital, profits, etc. in an accounting year. The income method shows the national income distribution among different earning groups in the economy.3. Expenditure methodIn the expenditure method, the national income is measured by adding up the expenditures made by individuals, companies, and the government. Thus, it combines consumer spending, investments made by companies, net exports, and government spending to calculate the national income.Importance of National Income AccountingThe statistics provided by national income accounting can be used to simplify the procedures and techniques used to measure the aggregate input and output of an economy.The data provided is used to frame government economic policies, and it also helps in recognizing the systemic changes happening in the economy.National income accounting provides information on the trend of economic activity level. Various social and economic phenomena can be explained through the data, which helps the policymakers in framing better economic policies.Central banks can use the national income accounting statistics to vary the rate of interest and set or revise the monetary policy.The data on GDP, investments, and expenditures also helps the government to frame or modify policies regarding infrastructure spending and tax rates.The national income accounting data also shows the contribution of different sectors, relative to each other, towards economic growth.Related ReadingsThank you for reading CFIs guide to National Income Accounting.To keep learning and developing your knowledge of financial analysis, we highly recommend the additional resources below:

What are the various measures of national income. List methods of measuring national income. How we measure national income. What is national income and methods of measuring national income. List and explain the methods use in measuring the national income.