

Problems in calculating national income



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Since decades, national income has remained the most significant notion in the economic world that plays a crucial role in deciding the status of a nation economically. For this purpose, calculation of the national income is an imperative process that involves various approaches such as income approach, product approach, and expenditure approach. However, recent studies (Tucker, pp. 40-44, 2008) have identified few problems that economists face while calculating national income of a country. In specific, the paper will now attempt to identify and discuss some of such problems. One of the most common problems that countries, especially developing countries face in this process is lack of expertise, as the methodology involves need highly professional experts, economists, and analysts that may complete the process in an accurate manner while eliminating as much human errors as they can (Bosch, pp. 11-14, 1992). However, a huge number of countries are experiencing shortage of such qualified individuals. Besides, lack of technical equipments is also significant issue exists in this methodology, as many countries do not have access to advanced technologies required for the calculation.

Thirdly, determination of depreciation is a complicated step in the process that creates problems for economists. One of the basic reasons behind this is the characteristic of depreciation being estimation rather than an accurate deduction that results in inaccurate figures of the national incomes (Dombusch, pp. 23-25, 2005). In addition, experts (Jain, pp. 52-57, 2008) have identified another problem that relates to decisions regarding inclusion

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and exclusion of certain products and services. In specific, economists face confrontations while deciding to consider government spending on social welfare, development expenses, interests against debts, etc that often results in wrong calculation of the national income.

Moreover, experts (Wall, pp. 39-42, 2008) have noticed that globalization has resulted in existence of huge number of foreign organizations working in a country, and economists face difficulties while determining whether to include income of such companies in their national income or not. However, the IMF has played a vital role in suggesting that economists should include income, as well as production activities in the owning country while ignoring the profits that should go in the national income of the parent country.

Furthermore, studies (Jain, pp. 39-41, 2008) related to the calculation of national income have shown that a number of economists face the problem of double counting that has become very common in absence of professional expertise and lack of advanced technologies.

In the result, developing countries face this problem during the calculation that causes inaccurate outcomes. Additionally, raw material is a major component of products considered during the calculation of national income. However, experts (Sachs, pp. 51-57, 2007) have accepted that all calculations related to the valuation of inventories are estimations due to complexity associated with the nature of raw materials that often becomes a major problem, and may result in wrong representation of products in the national income. It is an observation that economists (Fair, pp. 71-74, 2007) confront an ethical problem as well during the calculation of national income, as a large number of businesses and individuals attempt to show low incomes in order to avoid tax payments, and such underestimation reduces

the national incomes in an adverse manner. However, countries are now putting efforts to control this phenomenon by introducing strict rules and punishments against inaccurate representation of incomes that will resolve the issue largely.

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