Importance of national income

A variety of measures of national income and output are used in economics to estimate total economic activity in a country or region, including gross domestic product (GDP), gross national product (GNP), net national income (NNI), and adjusted national income (NNI* adjusted for natural resource depletion). All are specially concerned with counting the total amount of goods and services produced within some " boundary".

The boundary is usually defined by geography or citizenship, and may also restrict the goods and services that are counted. For instance, some measures count only goods and services that are exchanged formoney, excluding bartered goods, while other measures may attempt to include bartered goods by imputing monetary values to them. National accounts Main article: National accounts Arriving at a figure for the total production of goods and services in a large region like a country entails a large amount of data-collection and calculation.

Although some attempts were made to estimate national incomes as long ago as the 17th century,[2] the systematic keeping of national accounts, of which these figures are a part, only began in the 1930s, in the United States and some European countries. The impetus for that major statistical effort was theGreat Depressionand the rise of Keynesian economics, which prescribed a greater role for the government in managing an economy, and made it necessary for governments to obtain accurate information so that their interventions into the economy could proceed as well-informed as possible. [edit]Market value Main article: Market value In order to count a good or service, it is necessary to assign value to it. The value that the measures of national income and output assign to a good or service is its

market value – the price it fetches when bought or sold. The actual usefulness of a product (its use-value) is not measured – assuming the use-value to be any different from its market value. Three strategies have been used to obtain the market values of all the goods and services produced: the product (or output) method, the expenditure method, nd the income method. The product method looks at the economy on an industry-by-industry basis. The total output of the economy is the sum of the outputs of every industry. However, since an output of one industry may be used by another industry and become part of the output of that second industry, to avoid counting the item twice we use not the value output by each industry, but the value-added; that is, the difference between the value of what it puts out and what it takes in. The total value produced by the economy is the sum of the values-added by every industry.

The expenditure method is based on the idea that all products are bought by somebody or some organisation. Therefore we sum up the total amount of money people and organisations spend in buying things. This amount must equal the value of everything produced. Usually expenditures by private individuals, expenditures by businesses, and expenditures by government are calculated separately and then summed to give the total expenditure. Also, a correction term must be introduced to account for imports and exports outside the boundary. The income method works by summing the incomes of all producers within the boundary.

Since what they are paid is just the market value of their product, their total income must be the total value of the product. Wages, proprieter's incomes, and corporate profits are the major subdivisions of income. [edit]The output

approach The output approach focuses on finding the total output of a nation by directly finding the total value of all goods and services a nation produces. Because of the complication of the multiple stages in the production of a good or service, only the final value of a good or service is included in the total output.

This avoids an issue often called 'double counting', wherein the total value of a good is included several times in national output, by counting it repeatedly in several stages of production. In the example of meat production, the value of the good from the farm may be $10, then $30 from the butchers, and then $60 from the supermarket. The value that should be included in final national output should be $60, not the sum of all those numbers, $90. The values added at each stage of production over the previous stage are respectively $10, $20, and $30.

Their sum gives an alternative way of calculating the value of final output. Formulae: GDP(gross domestic product) at market price = value of output in an economy in the particular year - intermediate consumption NNP at factor cost = GDP at market price - depreciation + NFIA (net factor income from abroad) - net indirect taxes[3] [edit]The income approach The income approach equates the total output of a nation to the total factor income received by residents or citizens of the nation.

The main types of factor income are: Employee compensation (cost of fringe benefits, including unemployment, health, and retirement benefits); Interest received net of interest paid; Rental income (mainly for the use of real estate) net of expenses of landlords; Royalties paid for the use of intellectual property and extractable natural resources. All remaining value added

generated by firms is called the residual or profit. If a firm has stockholders, they own the residual, some of which they receive as dividends. Profit includes the income of the entrepreneur - the businessman who combines factor inputs to produce a good or service.