

# Essay on definition of national income

Business



National Income of a country is defined as the sum total of incomes earned by the citizens of the country during a given period of time due to their participation in the production process. This period is usually measured for a year. Individuals participate in the production process by supplying four factors of production- land, human labour, capital and organisation. The payment for the factors of production are rent for land, wage for human labour, interest for capital and profit for organisation.

There are number of ways of measuring national income which include the Output Approach , Expenditure Approach and income Approach.

### **Output Approach**

The total value of all final goods and services can be found out by adding up the total value of outputs produced at different produced at different stages of production. This is done to avoid the method of double-counting of GNP. There are difficulties in collection and calculating of the data so caution is to be taken to take final and Intermediate goods which will result in double counting

### **Expenditure Approach**

National Expenditure means expenditure on national income i. e. expenditure on the final goods and services produced during a year. In an economy there are three main agencies which buy goods and services. They are: households, firms and the government. So, we define

C= Private Consumption Expenditure

I= Investment Expenditure

G= Government Consumption Expenditure

We have, GNP at met Prices=  $C+I+G+(X-M)$

(Where  $X-M$ = Exports - Imports).

Net Income Abroad= income receipts from abroad - income payments to abroad. This is a part of national income though this part does not rise out of production within the domestic economy.

The above example is solved using expenditure approach

$$Y = C + I + G + (X-M)$$

$$Y = 3,657 + 741 + 1,098 + (673 - 704)$$

$$Y = 3,657 + 741 + 1,098 - 31$$

$$Y = 5,465$$

## **Income Approach**

The income approach measures the total flow of income earned by factor owners in the provision of final goods and services in a current period. Rent, wages, Interest and profit are the factor incomes.

National income= Rent +wages +Income +Profit

$$\text{National Income} = 3,254 + 17 + 530 + 403 + 341 = 4,545$$

$Y = \text{National Income} + \text{Indirect Business Taxes} + \text{Depreciation} + \text{Net foreign factor income}$

$$Y = 4,545 + 500 + 400 + 20 = 5,465$$