

# Current information for the first quarter of 2011 research paper

[Economics](#), [Money](#)



## Nominal Personal Income

This is the level of income that is received by individuals from all the sources that generate income, tailored to these individuals in the economic model.

The individuals are rewarded for their contribution as factors of production in the production process. Personal income is herein referred to as nominal because it has not been subjected to the implicit price deflator that consequently yields real personal income. Apart from taking part in the production process, nominal personal income is also generated from the receipt of transfers from both businesses and government. The individuals whose nominal personal income is calculated constitute the households, being made up by summing up all the individuals.

Nominal personal income is calculated as follows:

Nominal personal income = Wages and Employee Benefits Received +  
Interest Received + Rent Received + Dividends + Proprietors' Income +  
Transfer Payments to Households

The summation of all the above components of the nominal personal income yields the actual nominal personal income (Bureau of Economic Analysis, 2011). This is represented by the figures below, obtained from table 2. 1:

8, 177. 8 + 6, 553. 7 + 1, 624. 1 + 1, 126. 9 + 1, 098. 9 + 325. 7 + 1, 950. 6  
+ 1, 208. 3 + 742. 4 + 2, 355. 1 + 2, 317. 2 + 37. 9 = 27, 518. 6

Nominal Personal Income = 27, 518. 6

Nominal Disposable Income

This is the portion of personal income that remains after current taxes are deducted from the actual nominal personal income received by the individual(s). After taxes and other deductions are made from the income received, the remainder constitutes the actual amount of income available for spending. Nominal Disposable Income can be calculated based on table 2. 1 using the formula below:

Nominal Disposable Income = Nominal personal income - Taxes to the government - other levies

Nominal personal income is already given as 27, 518. 6; the Nominal Disposable Income is calculated as follows:

$$27, 518. 6 - 928. 1 - 1, 268. 4 = 25, 322. 1$$

Nominal Disposable Personal Income = 25, 322. 1

Nominal Personal Taxes

Income earned from whatever source in the economy is subject to being taxed by the government. The implication of this is that a portion of the personal income is deducted from the income received and driven towards government spending. Government finances its expenditure from taxes collected from the individual units of the economy as well as corporate. The interest here is the personal taxes. This portion that is deducted for use by the government is based on the specific tax bracket that an individual's income falls under. The higher the income earned, the higher the tax paid, relative to that tax bracket (Bureau of Economic Analysis, 2011).

From table 2. 1, the Nominal Personal Income is 27, 518. 6 and the Personal Tax applicable to that income is 1, 268. 4. This tax can be expressed as a percentage of the Personal income like shown below:

$$1, 268. 4 / 27, 518. 6 * 100 = 4. 61\%$$

Different amounts of tax would be paid when the same percentage of tax is applied on different income levels, so that higher income earners pay more.

### Nominal Personal Consumption

The Nominal Personal Consumption is comprised of all the personal expenditures that are financed by the nominal disposable personal income. Any outward payment made from the remaining income after tax and other deductions have been made constitutes the personal expenditure consumption. This consumption expenditure takes the form of goods and services bought by the individual(s), personal interests paid out, transfer payments to government, businesses or other recipients (Bureau of Economic Analysis, 2011). In this regard, the Nominal Personal Consumption can be achieved using the following formula:

Nominal Personal Consumption = Personal Expenditures + Personal interests paid out + Transfer Payments. From table 2. 1, the figures are 10683. 8 + 186. 2 + 178 + 103. 9 + 74. 1

Nominal Personal Consumption = 11, 226

### Nominal Personal Savings

The amount of Nominal Disposable Personal Income that is not spent determines the Nominal Personal Savings of the person. This is the amount of income that remains after all expenses have been met. It is dictated by the remainder of the Disposable Personal Income, because what a person does not spend is what the person actually saves out of the total income earned. It is calculated by deducting nominal personal consumption from disposable personal income.

Nominal Personal Savings = Nominal Disposable Personal Income - Nominal Personal Consumption. That is  $25,322.1 - 11,226 = 14,096.1$

## **MPS**

Marginal propensity to save gives the relationship between savings and income based on the tendency of a person to save relative to changes in the level of income. This can therefore be given as a ratio of savings to the actual increase in personal income. For example, if the person's income increased from 27,518.6 to 28,518.6 and the person only saves 200 of that, the MPS can be given as  $200/1000 = 0.20$

## **MPC**

Marginal propensity to consume gives the relationship between consumption and income based on the tendency of a person to alter consumption pattern relative to changes in the level of income. This is given as a ratio of personal consumption to the actual increase in personal income. For example, if the person's income increased from 27,518.6 to 28,518.6 and the person consumes 800 of that, the MPC can be given as  $800/1000 = 0.80$

## APC

This is the relationship between personal consumption and the personal income. This can be represented by the ratio:  $11,226 / 27,518.6 = 0.41$ ; it is a ratio of what is consumed to what is earned.

## APS

This is the relationship between personal savings and the personal income.

This can be represented by the ratio:  $14,096.1 / 27,518.6 = 0.51$

Suppose we have a recessionary gap in the amount of \$19.48 billion. From the information above:

Fiscal policymakers want to close this gap. By exactly how much would government spending need to be adjusted? In other words, it would decrease or increase by:

Government spending would increase because during the recession, people will tend to save more instead of consuming; the magnitude would be an increase in government spending by  $0.41 * 19.48 = 7.99$

suppose policymakers wanted to close the gap with just tax changes. Taxes would need to change by:

Solution based on tax changes would require people be taxed more so as to reduce their accumulated savings. The tax effect would be spread across the individuals by an increase in tax of the magnitude  $19.48 * 0.51 = 9.93$ ; where this amount is met by each individual's ability to pay.

## **Works Cited**

Bureau of Economic Analysis. GDP and the Economy; Third Estimates for the First Quarter of 2011. SBC. 2011