

Quadrant II - Notes

Paper Code: ECC 103

Module Name: Meaning of National Income; National Income and Related Aggregates

Module No: 3

Meaning of National Income

National income means the value of all final goods and services produced by a country during a financial year. National Income is the net result of all economic activities of any country during a period of one year and is valued in terms of money. Total monetary value of all final goods and services produced by the country in a given year. Example: agricultural goods, industrial goods, services.

NATIONAL INCOME AGGREGATES

- Gross Domestic Product (GDP)
- Net Domestic Product (NDP)
- Gross National Product (GNP)
- Net National Product (NNP)

Gross Domestic Product is the total monetary value of final goods and services produced within the country during the financial year. All final goods and services produced only within the boundaries of the country are included in the GDP of the country. Goods and services produced by Indian industries and as well as those produced by foreign companies in the country are included in the GDP of the country. Thus all the final goods and services produced within the borders of the nation are included in the GDP of the nation.

GDP is calculated as **$GDP = C + I + G + (X - M)$**

C=Consumption Expenditure

I=Investment expenditure

G= Government Expenditure

X-M= Net exports (exports – imports)

Net Domestic Product While producing the total output of goods and services there is “wear and tear” of the machinery, equipment, and so on (the capital stock).

If this depletion of the capital stock, called depreciation, is subtracted from GDP we get Net Domestic Product.

NDP is calculated as: **$NDP = GDP - \text{Depreciation}$**

Depreciation is the decrease in the value of an asset overtime. If country is unable to replace the capital stock lost through depreciation then the GDP will fall.

Gross National Product is the total value of all finished goods and services produced by a country's citizens in a given financial year, irrespective of their location. GNP also measures the output generated by a country's businesses located domestically or abroad.

GNP implies the value of final goods and services produced within the country and beyond the boundaries of residents of the country during the financial year.

GNP greater than GDP it means that the population of that country will have a greater total income. GNP signifies how a country's people contribute to its economy. GNP does not include foreign residents' income earned within the country. GNP also does not count any income earned in India by foreign residents or businesses, and excludes products manufactured in the country by foreign companies.

GNP is calculated as: $GDP (\text{Consumption} + \text{Gross Private Investment} + \text{Government Expenditure} + \text{Net Exports}) + \text{Net Factor Income from Abroad}$

Net Factor Income from Abroad: net income earned by domestic residents from overseas investments minus net income earned by foreign residents from domestic investments.

Net National Product is calculated by subtracting depreciation from Gross National Product
 $NNP = GNP - \text{Depreciation}$.