Date ___/___/______

Date :- 20/5/2020	Degree Part-II (Hons.)
Content Writer :-	Paper - III
Dr. Akshay Kumar Pathak	Content of Paper :-
Deptt. of Economics,	Macro Economics
Marwari College,	Module :- 1
Darbhanga (LNMU)	

TOPIC :- NATIONAL INCOME AND ITS COMPONENTS

The human and physical resources of a country produce annually a certain amounts of goods and services. This is called National Income of a country. National Income of a country can be defined as the total market value of all final goods and services produced in the economy in a year. Two things can be inferred in respect to this meaning of National Income. First, it measures the market value of annual output. In other words, national income is a monetary measure. This is because there is no other way of adding up the different sorts of goods and services except with their money prices. But in order to know accurately the changes in physical outputs the figure for national income is adjusted for price changes. Secondly, for calculating national income accurately all goods and services produced in any given year must be counted only once and not more than once. Most of the goods go through a series of production stages before reaching a market. As a result, parts or components of many goods are brought and sold many times. Therefore, in order to avoid counting several times the parts of goods that are sold and resold, national income only includes the market value of all final goods and ignores the transactions involving intermediate goods.

Infact, the concept of national income has three interpretations:

(i) It represents a total value of production.

(ii) It represents a receipt total, and,

(iii) It represents an expenditure total.

Scanned with CamScanner

Gross Domestic Product (GDP) at market prices

Domestic Product is an important component of national income. Gross Domestic Product is the money value of all final goods and services produced by normal residents as well as non-residents in domestic territory of a country and does not include net factor income earned from abroad. Thus, the difference between GDP and GNP at market prices arises due to the existence of net factor income from abroad. GDP does not include net factor income from abroad whereas GNP includes it. On this basis, inference can be drawn that:

Gross Domestic Product (at market prices)

= Gross National Product (at market prices) - net factor income from abroad

Hence,

$$GDP_{MP} = GNP_{MP} - \text{net factor income from abroad}$$

Gross National Product (GNP)

Gross National Product is defined as the total market value of all final goods and services produced in a year in a country. Two important matters can be cited by the above given definition of gross national product:

First, it measures the market value of annual output. In other words, GNP is a monetary measure. There is no other way of adding up the different sorts of goods and services produced in a year except in terms of their money prices. But in order to know accurately the changes in physical output the figure for GNP is adjusted for price changes.

Secondly, for calculating gross national product accurately all goods and services produced in any given year must be counted once, and not more than once. Hence, gross national product includes the market value of only final goods and services.

Maharaza

Scanned with CamScanner

Net National Product (NNP)

In Production of gross national Product of a year we Consume or use up some fixed capital that is equipment machinery etc. The capital goods like machinery wear out or fall in value as a result of its consumption or use in the Production Process. This consumption of fixed capital or fall in the value of fixed capital due to wear and tear is called depreciation. When charges for depreciation are deducted from gross national Product we get net national Product. Therefore,

Net National Product (NNP)

= Gross National Product (GNP)

− Depreciation.