



ST. MARY'S CO-ED SCHOOL, HARDA

CLASS - XII (2020-2021)

SUBJECT - MACROECONOMICS

CHAPTER -3

NATIONAL INCOME AND RELATED AGGREGATES

SUMMARY OF THE CHAPTER

(i) Gross Domestic Product at Market Price : It is the money value of all the final goods and services produced within the domestic territory of a country during an accounting year.

$GDPMP = \text{Net domestic product at FC (NDPFC)} + \text{Depreciation} + \text{Net Indirect tax.}$

(ii) Gross Domestic Product at FC : It is the value of all final goods and services produced within domestic territory of a country which does not include net indirect tax.

$GDPFC = GDPMP - \text{Indirect tax} + \text{Subsidy}$

or $GDPFC = GDPMP - \text{NIT}$

(iii) Net Domestic Product at Market Price : It is the money value of all final goods and services produced within domestic territory of a country during an accounting year and does not include depreciation.

$NDPMP = GDPMP - \text{Depreciation}$

(iv) Net Domestic Product at FC : It is the value of all final goods and services which does not include depreciation charges and net indirect tax. Thus it is equal to the sum of all factor incomes (compensation of employees, rent, interest, profit and mixed income of self employed) generated in the domestic territory of the country.

$NDPFC = GDPMP - \text{Depreciation} - \text{Indirect tax} + \text{Subsidy}$

(v) Net National Product at FC (National Income) : It is the sum total of factor incomes (compensation of employees + rent + interest + profit) earned by normal residents of a country in an accounting year

or

$NNPFC = NDPFC + \text{Factor income earned by normal residents from abroad} - \text{factor payments made to abroad.}$

(vi) Gross National Product at FC: It is the sum total of factor incomes earned by normal residents of a country along with depreciation, during an accounting year.

$GNPFC = NNPFC + \text{Depreciation OR}$

$GNPFC = GDPFC + NFIA$

(vii) Net National Product at MP : It is the sum total of factor incomes earned by the normal residents of a country during an accounting year including net indirect taxes.

$NNPMP = NNPFC + \text{Indirect tax} - \text{Subsidy}$

(viii) Gross National Product at MP : It is the sum total of factor incomes earned by normal residents of a country during an accounting year including depreciation and net indirect taxes.

$GNPMP = NNPFC + \text{Dep} + \text{NIT}$

Domestic Aggregates

Gross domestic Product at Market Price is the market value of all the final goods and services produced by all producing units located in the domestic territory of a country during an accounting year. It includes the value of depreciation or consumption of fixed capital.

Net Domestic Product at Market Price (Depreciation (consumption of Fixed capital)). It is the market value of final goods and services produced within the domestic territory of the country during a year exclusive of depreciation.

It is the factor income accruing to owners of factors of production for supplying factor services within domestic territory during an accounting year.

NATIONAL AGGREGATES

Gross National Product at Market Price) is the market value of all the final goods and services produced by normal residents (in the domestic territory and abroad) of a country during an accounting year.

National Income :It is the sum total of all factors incomes which are earned by normal residents of a country in the form of wages. rent, interest and profit during an accounting year.

Value of Output :Market value of all goods and services produced by an enterprise during an accounting year.

Value added :It is the difference between value of output of a firm and value of inputs bought from the other firms during a particular period of time.

Problem of Double Counting :Counting the value of a commodity more than once while estimating national income is called double counting. It leads to overestimation of national income. So, it is called problem of double counting.

Ways to solve the problem of double counting.

(a) By taking the value of only final goods.

(b) By value added method.

Components of Added by all 3 sectors

1. Value Added by Primary Sector
2. Value Added by Secondary Sector
3. Value Added by Tertiary Sectors

Hints

Sales + Change in stock

(Change in stock = Closing Stock – Opening Stock)

Components of Final Expenditure:

1. Final Consumption Expenditure
 - a. Private Final Consumption Expenditure(C)
 - b. Government Final Consumption Expenditure(G)
2. Gross Domestic Capital Formation
 - a. Gross Domestic Fixed Capital Formation

- i. Gross business Fixed Investment
- ii. Gross Residential Construction Investment
- iii. Gross public Investment
- b. Change in Stock or Inventory Investment
- 3. Net Export(X-M)
- a. Export(X)
- b. Import(M)

Components of Domestic Income :

- 1. Compensation of Employees
 - a. Wages and salaries(Cash/or kinds)
 - b. Employers Contribution of Social security Schemes
- 2. Operating surplus
 - a. Rent
 - b. Interest
 - c. Profit
 - i. Corporate Tax
 - ii. Dividend
 - iii. Undistributed corporate profit
- 3. Mixed Income for self-Employed person

Net Factor Income from Abroad NFIA = It is difference between factor income received/earned by normal residents of a country and factor income paid to non-residents of the country.

Components of NFIA :

- 1. Net Compensation of Employees
- 2. Net Income from Property and entrepreneurship
- 3. Net Retained earning of resident companies abroad

Hints :NFIA : Net Factor Income Earned from Abroad.

NFIA = Factor Income Received from Abroad.

–Factor Income Paid to Abroad.

OR

NFIA = Net compensation of Employees

Net income from property and entrepreneurship.

+ Net retained earning of resident companies abroad.

Net National Disposable Income (NNDI): It is defined as net national product at Market price plus net current transfer from rest of the world.

NNDI = NNMP

+ Net current transfers from rest of the world.

=National income + net indirect tax + net current transfers from the rest of the world.

Gross National Disposable Income (Gross NDI + Net current Transfers from rest of the world.

Net National Disposable Income (Net NDI) + Net current Transfers from rest of the world.

OR

= Gross NDI – Depreciation.

QUESTIONS FOR SELF ASSESMENT

Q.1 Distinguish between National product and Domestic Product.

Q.2 Define National Income?

Q.3 When will be the GDP of an economy equal to GNP?

Q.4 Describe the meaning of Personal Income.

Q.5 Define Private Income.