Chapter 3	# Macro Economics

Important concepts of National Income:

(1) Gross Domestic Product (GDP):-
Gross Domestic Product (GDP) is the total market value of all final goods and services currently produced within the domestic territory of a country in a year. It is measured at two different prices which are GDP at factor cost and GDP at constant prices.When GDP is measured at current price it is called Nominal GDP and when it is measured at constant price or base year it is called real GDP.

(2) Gross National Product of Market Price (GNP at MP):-
Gross national product at market price is broad and comprehensive concept. GNP at MP measures the money value of all the final products produced annually in a counter plus net factor income from abroad. In short GNP is GDP plus net factor incomes earned from abroad. Net factor incomes is derived by reducing the factor incomes earned by foreigners from the country, in question from the factor incomes earned by the residents of that country from abroad.

(3) Net National Product at Market Price (NNP at MP):-
Net National product measures the net money value of final goods and services at current prices produced in a year in a country. It is the gross national product at market price less depreciation.

(4) Net Domestic Product (NDP):-NDP is calculated by deducting depreciation expense from Gross domestic product.

(5) Gross Domestic Product at Factor Cost (GDP at FC):-
Gross national product at factor cost is obtained by deducting the indirect tax and adding subsidies to GNP at market price .

(6) Private Income:-
Private income means the income earned by private individuals from any source whether productive or unproductive. It can be arrived at from NNP at factor cost by making certain additions and deduction.

(7) Personal Income:-
Personal Income is the total income received by the individuals of country from all sources before direct taxes. Personal income is not the same as National Income, because personal income includes the transfer payments where as they are not included in national income. Personal income includes the wages, salaries, interest and rent received by the individuals.

(8) Disposable Income:-
Disposable income means the actual income which can be spent on consumption by individuals and families. It refers to the purchasing power of the house hold. The whole of disposable income is not spent on consumptions; a part of it is paid in the form of direct tax. Thus disposable income is that part of income, which is left after the exclusion of direct tax.

Concepts
- NNP Mp = GNP mp - depreciation
- NDP Mp = GDPmp – depreciation
- NDP Fc = NDP mp – Net indirect taxes (indirect tax – subsidies)
- GDP Fc = NDP fc + depreciation
- NNP Fc = GDP mp - depreciation + Net factor income from abroad – Net indirect taxes

Nominal-GNP- GNP measured in terms of current market prices is called nominal GNP.
Real GNP- GNP computed at constant prices (base year price) is called real GNP.

Factor Payment: Factor payment is a payment made in lieu of providing goods and services. A worker gets the wages is the factor payment because he worked for it.

Transfer payment: If there is no obligation involved to deliver service or goods in return of the payments is called transfer payment. Examples are: donation, old age pension, unemployment benefit, scholarship etc.

METHODS OF CALCULATING NATIONAL INCOME-

Production generate incomes which are again spent on goods and services produced. Therefore, national income can be measured by three methods:

1. Output or Production method
2. Income method, and
3. Expenditure method.

Let us discuss these methods in detail.

1. Output or Production Method: This method is also called the value-added method. This method approaches national income from the output side. Under this method, it estimate the net contribution made by all the firms in a year. Value added by a firm is the difference between value of total production by the firm and value of intermediate goods used by the firm.
   Value added=Value of output -Value of input
   In order to arrive at the net value of production of a given industry, intermediate goods purchases by the producers of this industry are deducted from the gross value of production of that industry. The advantage of this method is that it reveals the contributions and relative importance and of the different sectors of the economy.
2. Income Method: This method approaches national income from the distribution side. According to this method, national income is obtained by summing up of the incomes earned from four factors of production which are rent(land), wage(labour),profit(entreprenur) and interest (capital).
   This method of estimating national income has the great advantage of indicating the distribution of national income among different income groups such as landlords, capitalists, workers, etc.
3. Expenditure Method: This method arrives at national income by adding up all the expenditure made on goods and services during a year. Thus, the national income is found by adding up the following types of expenditure by households, private business enterprises and the government: -
   (a) Expenditure on consumer goods and services by individuals and households denoted by C. This is called personal consumption expenditure denoted by C.
   (b) Expenditure by private business enterprises on capital goods and on making additions to inventories or stocks in a year. This is called gross domestic private investment denoted by I.
   (c) Government's expenditure on goods and services i.e. government purchases denoted by G.
   (d) Expenditure made by foreigners on goods and services of the national economy over and above what this economy spends on the output of the foreign countries i.e. exports – imports denoted by (X – M). Thus, GDP = C + I + G + (X – M).