Disposable Income Formula

Disposable income or disposable personal income is an economic term which means the money that is available for household consumption, savings and spending after accounting for income tax.

It is an important indicator that is used by economists in determining the demand in an economy. Also, it is used to estimate the overall state of the country's economy.

The mathematical representation of disposable income formula is as follows

Disposable Income = Personal Income – Personal Income Taxes

Or DPI = PI – PIT

Spending decisions are taken based on the current income. The effect of disposable income can be seen in the GDP of a nation as fluctuations occurring in the disposable income will result in having a big impact in the GDP growth.

Economic growth can be impacted by the levels of disposable income as in times of economic crisis, the level of spending by the people will reduce, that will have a direct impact on the economic growth of the country.