

# NATIONAL INCOME OF INDIA

- ♦ National income is the net value of all the final goods & services produced in a country during a financial year. It is a flow concept. In India the financial year is from April 1st to March 31st. The national income is calculated annually.
- ♦ According to National income committee (1949) "A national income estimate measures the volume of commodities & service turned out during a given period counted without duplication."

**National Income** - It is the measurement of the production power of an economic system in a given time period.

National wealth - Is the measurement of the present assets available at a given time. It is a stock concept.

## National Income Aggregates

1. **Gross National Product (GNP)** - GNP refers to the money value of total output of production of final goods & services produced by the nationals of a country during a given period of time, generally a year.
  - ♦ Symbolically,  

$$GNP = C + G + I + (X - M) + (R - P)$$
 Where,  
 C = Consumption expenditure.  
 G = Government expenditure.  
 I = Investment expenditure.  
 $(X - M)$  = Net exports.  
 $(R - P)$  = Net factors income from abroad.
2. **Gross Domestic Product (GDP)** - It is the total money value of all final goods & services produced within the geographical boundaries of the country during a given period of time.
  - ♦ Symbolically,  

$$GDP = GNP - (R - P)$$
 When  $R - P = 0$  then  $GDP = GNP$
3. **Net National Product (NNP)** - NNP is obtained by subtracting depreciation value (i.e., capital stock consumption) from GNP
  - ♦ Symbolically,  $GNP - \text{Depreciation} = NNP$
4. **Personal Income (PI)** - It is that income which is actually obtained by the individual or nationals.
  - ♦ Symbolically,  

$$\text{Personal Income} = \text{National income} - \text{undistributed profits of corporations.}$$

Payment for social security provisions - corporate taxes + Transfer payment + Net interest paid by the government.

5. **Personal Disposable Income (PDI)** - When personal direct taxes are subtracted from personal income, the obtained value is called personal disposable income.

- ♦ Symbolically,  

$$PDI = PI - \text{Direct taxes}$$

$$PDI = \text{Consumption} + \text{Saving.}$$

6. **National Income (NI)** - When NNP is calculated at factor cost (FC) it is called National income this measure is calculated by deducting direct taxes & adding subsidies in NNP at market price (MP).

$NNP_{FC} = NNP_{MP} - \text{Indirect taxes} + \text{subsidies.}$   
 or  $NNP_{FC} = GNP_{MP} - \text{Depreciation} - \text{Indirect tax} + \text{Subsidies.}$

- ♦ When the national income is measured at the current year price, it is called **National income at constant prices.**
- ♦ When the national income is measured at the current year price, it is called **National income at current prices.**
- ♦ The distinction between the two is essential if one has to gauge the "real" progress of the economy.
- ♦ In India, WPI (Wholesale price Index) is the weighted average of prices of 676 items with the base year 2004-2005. Out of 676 items, 102 are primary articles, 555 are manufactured & 19 are services items.

## Methods of measuring National Income -

1. **Product Method** - In this method, net value of final goods & services produced in a country during a year is obtained, which is called total final product.
  - ♦ This represents gross domestic product (GDP). Net income earned in foreign boundaries by nationals is added & depreciation is subtracted from GDP.
2. **Income method** - In this method, a total of net income earned by working people in different sectors & commercial enterprises is obtained. Income of both categories of peoples -
  1. Paying tax.
  2. Non-paying tax both are added to obtain national income.
- ♦ By income method national income is obtained by adding receipts as total rent, total wages, total interest & total profit.

3. **Consumption Method** - It is called expenditure method. Income is either spend on consumption or saved. Hence, national income is the addition of total consumption & total savings.

- ◆ In India, a combination of production method & income method is used for estimating national income.

**Estimates of National Income in India -**

- ◆ In 1868, the first attempt was made by **Dadabhai Naoroji** in his book "Poverty & un-british rule in India". He estimated the per capital annul income to be Rs. 20.
- ◆ The first scientific attempt to measure national income in India was made by **prof VKRV Rao** in 1931-32. He divided the Indian economy into 13 sectors.

- ◆ In 1949, national income committee under the chairmanship of **Prof PC mahalanobis** was constituted the other members being prof VKRV Rao & prof DR Gadgil.

- ◆ National statistical organisation (NSO) was set up on June 1, 2005 for promoting statistical network in the country. It was then headed by **prof SD Tendulkar**.

**CSO and NSSO**

- ◆ In 1949, central statistical organization (CSO) was constituted to publish national income data.
- ◆ NSSO (National Sample Survey organisation) was set up in 1950 for conducting large scale sample survey to meet the data needs of the country for the estimation of national income & other aggregates.

