



WELCOME





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NATIONAL INCOME, PART I

- Topics Covered
- **Introduction**
- **Meaning**
- **Definitions of National Income**
- **Features of National Income**
- **Circular Flow of National Income**



INTRODUCTION

- National Income is one of the important subject matter of macroeconomics. The national economy comprises of all the firms and factories, shops and markets, banks and financial institutions, various departments and their offices etc. National income is a composite measure of all economic activities such as production, distribution, exchange and consumption, but is also an objective indicator of economic welfare of the people in a country.



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- In India, establishment of the National Income Committee (NIC) in 1949 marked the beginning of Government efforts for regular compilation of National Income estimates. At present, Central Statistical Organization (CSO) compiles and publishes data on national income and allied aggregates every year.



MEANING

- 1) Modern economy is a money economy. Hence, national income of a country is expressed in terms of money.
- 2) The total income of the nation is called national income.
- 3) In real terms, national income is the flow of goods and services produced in an economy during a year.



DEFINITIONS OF NATIONAL INCOME

Following are some of the important definitions of national income :

- **1) National Income Committee (NIC) :** The National Income Committee was appointed by the Government of India in August 1949 with Prof. P. C. Mahalanobis as Chairman and Prof. D. R. Gadgil and Dr. V. K. R. V. Rao as the members. According to NIC “A national estimate measures the volume of commodities and services turned out during a given period counted without duplication.”



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- **Prof. A.C. Pigou** : “National dividend is the part of objective income of the community including of course income derived from abroad which can be measured in money.”
 - **Prof. Irving Fisher** : “National dividend or income consists solely of services as received by ultimate consumers, whether from their material or from their human environments”



FEATURES OF NATIONAL INCOME

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- 1) Macro Economic concept :** National income represents income of the economy as a whole rather than that of an individual. Hence it is a macro economic concept.
 - 2) Value of only final goods and services :** In order to avoid double counting in national income, the value of only final goods and services produced in the economy are considered. The value of intermediate goods or raw materials is not considered. For example, while estimating the production of shirts, there is no need to take the value of cotton, as it is already included in the price of the shirts.





3) Net aggregate value : National income includes net value of goods and services produced and does not include depreciation cost. (i.e. wear and tear of capital assets)

4) Net income from abroad : National income includes net income from abroad i.e. difference between export value and import value (X-M) and net difference between receipts from abroad and payments made abroad (R-P).



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- 5) Financial year :** National income is always expressed with reference to a time period. In India, it is from 1st April to 31st March.
- 6) Flow concept :** National income is a flow concept as it shows flow of goods and services produced in the economy during a year.
- 7) Money value :** National income is always expressed in monetary terms. It represents only those goods and services which are exchanged for money.



CIRCULAR FLOW OF NATIONAL INCOME

- Circular flow of income is the basic concept in macro economics. The circular flow of income refers to the process whereby an economy's money receipts and payments flow in a circular manner continuously through time.
- Circular flow of income can be determined for the following :
 - 1) Two sector Economy (Households and Business Firms.) $Y = C + I$
 - 2) Three sector Economy (Households, Business Firms and Government sector)
 $Y = C + I + G$
 - 3) Four Sector Economy (Households, Business

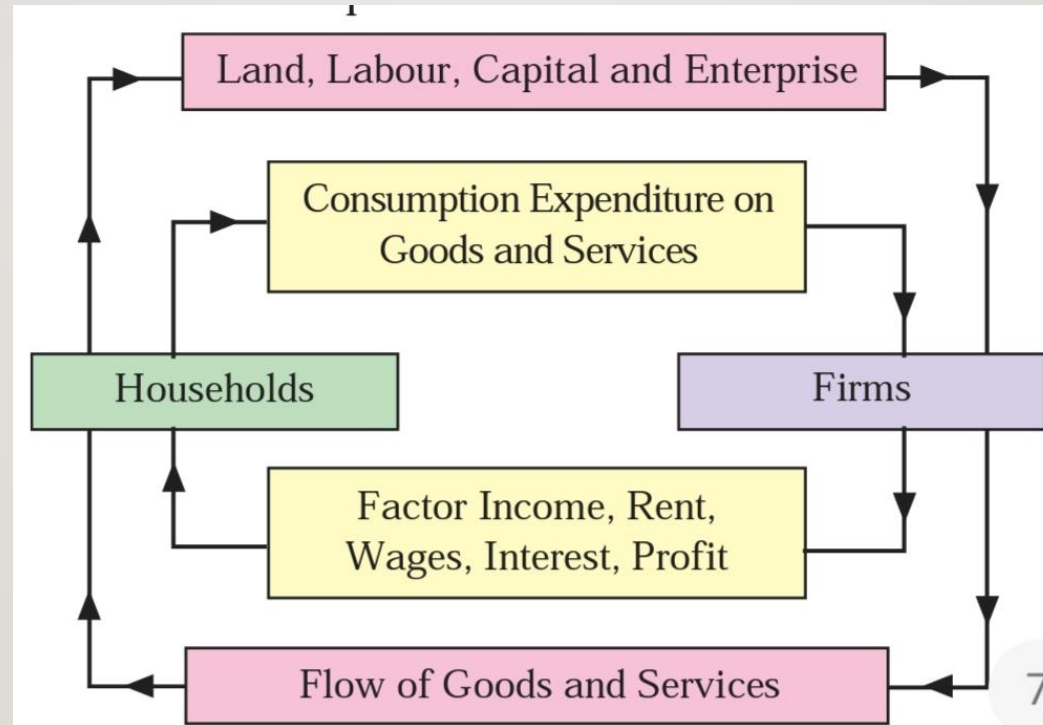


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- Firms, Government and Foreign sector)
 - $Y = C + I + G + (X - M)$
 - The circular flow of goods and money in a two sector model is explained below



TWO SECTOR MODEL OF CIRCULAR FLOW OF NATIONAL INCOME

- There are two sectors, households and firms. It divides the diagram into two parts. The upper half represents the factor market and the lower half represents the commodity market.
- **Following** explains circular flow of income and expenditure in a two sector model.





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- In the above figure the factors of production flow from the households to the firms. The firms use these factors to produce goods and services required by the households. Thus, goods flow from the households to the firms and from the firms back to the households. It is called product flows.
 - In the same way, money flows from the firms to the households in the form of factor payments such as rent, wages, interest and profit. Households use this income to purchase goods and services. Thus, money flows from the firms to the households and from the households back to the firms. It is called money flows.



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- In the circular flow of income, production generates factor income, which is converted into expenditure. This flow of income continues as production is a continuous activity due to never ending human wants. It makes the flow of income circular



THANKS

