

Course– Indian Economy Econ(H)221

Lecture 7 : National Income: Problems and Importance



National Income - introduction

➤ Definitions:

- The labor and capital of a country, working on its natural resources produces certain net amount of goods and services, the aggregates of which is known as national income or national product.
- Is also defined as the total market value of all the final goods and services produced in an economy in a given period of time.

➤ National income (NI):

- Is an important indicator of a nation's progress
- GNP (NI) being the monetary measure of all final goods and services produced, is widely used as an index for judging the performance of an economy.
- The concept of NI is linked to the society as a whole, in contrast to the private income. But NI is not merely the simple aggregation of private incomes.

National Income ...

➤ National Income at Current Price and Constant Price:

- When the value of goods and services is found out by multiplying the quantity produced during one year by the prices prevailing in that year, it is national income at current prices.
- On the other hand, when the value of goods and services is calculated by multiplying the quantity during one year with prices of the base year, it is called National Income at Constant Prices.

Problems in estimating national income

- National income is not limited to the territorial boundaries of a country. We must include income of all the residents of a country even if they are abroad.
- Another difficulty in estimating the national income in under developed economies is the prevalence of non-monetized sector.
- Income earned through illegal activities is not included in national income.
- Services rendered free of charge are not included in GNP. By leaving out these service, national income will work out to be less

Problems in estimating national income

- Transfer payments are not included in national income as they do not contribute to national product.
- Capital gains and losses are not included in GNP as they are not the result of current economic activities.
- In the calculation of national income leisure foregone in the process of production is not included.
- In under developed economies due to illiteracy, most producer do no keep regular accounts.
- Another difficulty in the measurement of national income in underdeveloped countries is lack of adequate statistical data.

Importance of National Income Analysis

- Analysis is an index of economic activity and an instrument of economic planning.
- National income accounting indicates the growth of the economy in terms of income and output.
- National income statistics help the policy makers to frame policies to achieve full employment and rapid economic growth.
- A complete knowledge about the trends in national income is essential in economic planning.
- Research scholar also make use of national income data pertaining to input, output, saving, consumption, investment and employment.
- National income statistics helps in solving the problem of inequalities in income distribution.

Thank you

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