UPSC Civil Services Examination

UPSC Notes [GS-III]

Topic: Measurements of National Income - UPSC Economy Notes

What is National Income?

The total value of final goods and services produced by the normal residents during an accounting year, after adjusting depreciation.

- It is Net National Product (NNP) at Factor Cost (FC)
- It does not include taxes, depreciation and non-factor inputs (raw materials)

Domestic Income – Total value of final goods and services produced within a domestic territory during an accounting year, after adjusting depreciation.

- It is NDP at FC
- Both NNP and NDP can be measured at constant prices (real income) or market prices (nominal income)
- Domestic Income + NFIA = National Income

Measurement of National Income

There are three methods to measure national income:

Methods to Measure National Income	
S.No	**Measurement Method**
1.	Income Method
2.	Production (Value-Added) Method
3.	Expenditure Method

Measurement of National Income – Income Method

Estimated by adding all the factors of production (rent, wages, interest, profit) and the mixed-income of self-employed.

1. In India, one-third of people are self-employed.
2. This is the 'domestic' income, related to the production within the borders of the country

Measurement of National Income – Production Method

Estimated by adding the value added by all the firms.

Value-added = Value of Output – Value of (non-factor) inputs

1. This gives GDP at Market Price (MP) – because it includes depreciation (therefore 'gross') and taxes (therefore 'market price')
2. To reach National Income (that is, NNP at FC)
   - Add Net Factor Income from Abroad: GNP at MP = GDP at MP + NFIA
   - Subtract Depreciation: NNP at MP = GNP at MP – Dep
   - Subtract Net Indirect Taxes: NNP at FC = NNP at MP – NIT

Measurement of National Income – Expenditure Method

The expenditure method to measure national income can be understood by the equation given below:

Y = C + I + G + (X-M),

Where Y = GDP at MP, C = Private Sector's Expenditure on final consumer goods, G = Govt's expenditure on final consumer goods, I = Investment or Capital Formation, X = Exports, I = Imports, X-M = Net Exports

Any of these methods can be used in any of the sectors – the choice of the method depends on the convenience of using that method in a particular sector

Quick Facts about National Income for UPSC Prelims

The table mentioned below gives the list of items that are included in national income and of those which are not included:

National Income	
Items Included in National Income	**Items not included in National Income**
Goods produced for self-consumption	Intermediate goods
Estimated rent of the self-occupied property	Transfer payments (unilateral payments made without expectations of return; like gifts, unemployment allowance, donations etc)
–	Sale and purchase of old goods and existing services (shares are not included, unless they are through an IPO)
–	Windfall gains (lottery income)

| – | Black money (cannot be estimated) |
| – | Work done by housewives |

1. First rough estimate of National Income was done by Dadabhai Naoroji for 1867-68; published in his book Poverty and Unbritish rule in India (famous for its Drain of Wealth theory)
2. First scientific estimate made by Prof V K R V Rao (1931-32)
3. The Indian government estimated the National Income for the first time in 1948-49 through the Ministry of Commerce
4. National Income Committee was set up in 1949 (Chairman – Dr P C Mahalanobis)
   - P C Mahalanobis was also the chairman of Indian Statistical Institute
5. Currently, the National Statistical Office (NSO) estimates National Income
   - It publishes National Accounts Statistics annually
   - Under the Ministry of Statistics and Programme Implementation
   - Now, CSO has been merged with the National Sample Survey Organization to form the National Statistical Organization