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NATIONAL INCOME

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The total amount of money earned within a country.

National Income refers to the **money value** of all the goods and services produced in a country during a financial year. In other words, the final **outcome of all the economic activities** of the nation during a period of one year, valued in terms of **money** is called as a National income.



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The National Income is a vital macroeconomic variable which determines the business level and economic status of the nation.

The level of national income determines the **aggregate demand** of goods and services while its distribution defines the pattern of aggregate demand, i.e., what kinds of goods and services are produced and demanded.



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While the economic activities generate the flow of goods and services, it also generates the money flows in the form of factor payments, such as wage, rent, interest, earnings of the self-employed.

Thus, national income can also be estimated by adding all the factor earnings and adjusting the sum of subsidies and the indirect taxes. Thus, the income obtained is called as a **National income at factor Cost**, related to the money flows.



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Importance of NI

The measurement of the size of the economy and level of country's economic performance

To trace the trend or the speed of the economic growth in relation to previous year(s) also in other countries

To know the composition and structure of the national income in terms of various sectors and the periodical variations in them.

To make projections about the future development trend of the economy.



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To help government formulate suitable development plans and policies to increase growth rates.

To fix various development targets for different sectors of the economy on the basis of the earlier performance.

To help businesses to forecast future demand for their products.

To make international comparison of people's living standards.

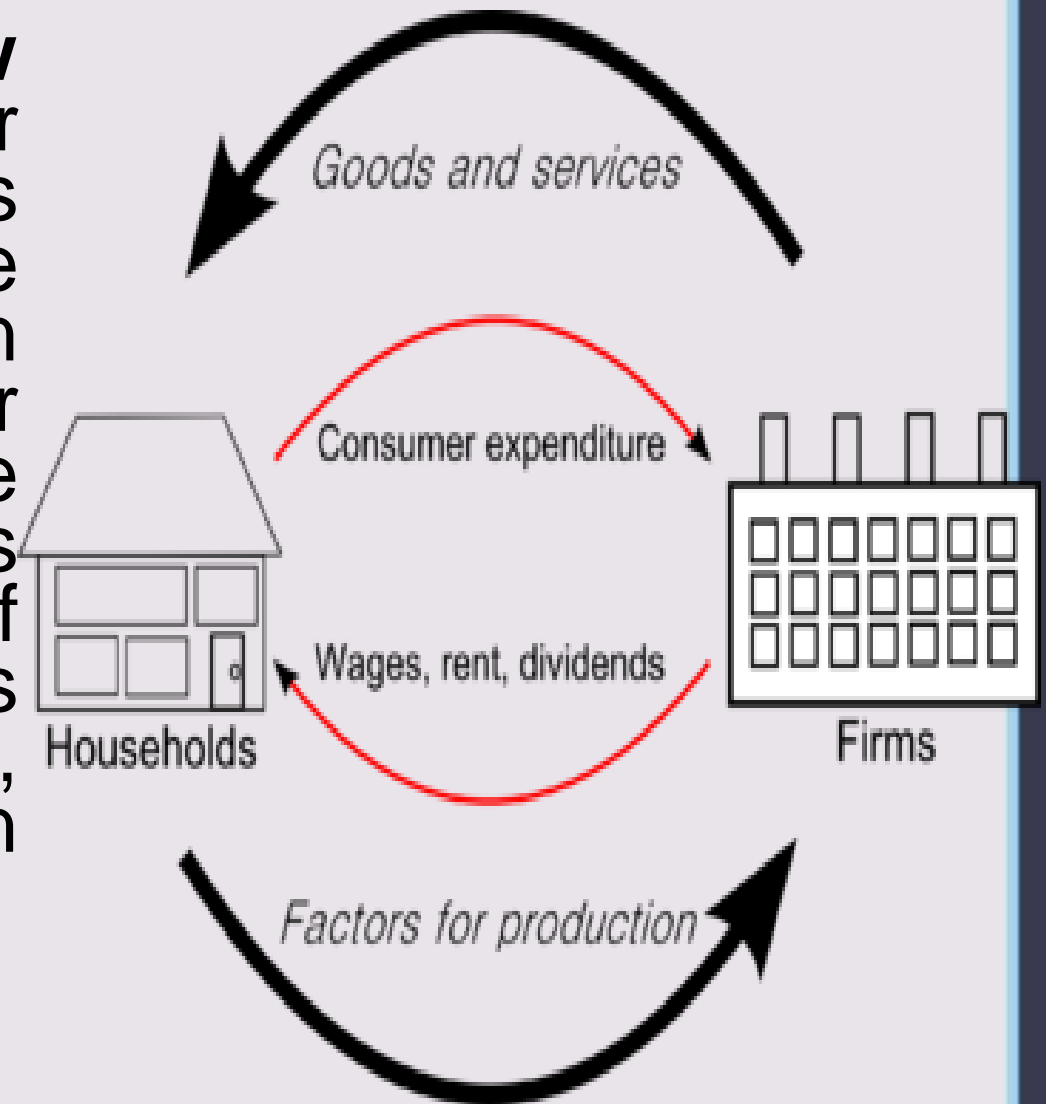


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CIRCULAR FLOW

The **circular flow** of **income** or **circular flow** is a model of the economy in which the major exchanges are represented as **flows** of money, goods and services, etc. between economic agents.





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Circular Flow

The **circular flow of income** or **circular flow** is a model of the economy in which the major exchanges are represented as flows of money, goods and services, etc. between economic agents.

The flows of money and goods exchanged in a closed circuit correspond in value, but run in the opposite direction. The circular flow analysis is the basis of national accounts and hence of macroeconomics.



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NI Concepts

The important concepts of national income are:

1. Gross Domestic Product (GDP)
2. Gross National Product (GNP)
3. Net National Product (NNP) at Market Prices
4. Net National Product (NNP) at Factor Cost or National Income
5. Personal Income
6. Disposable Income



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Gross Domestic Product (GDP): Gross Domestic Product (GDP) is the total market value of all final goods and services currently produced within the domestic territory of a country in a year.

Gross National Product (GNP): Gross National Product is the total market value of all final goods and services produced in a year. GNP includes net factor income from abroad whereas GDP does not. Therefore,

$$\text{GNP} = \text{GDP} + \text{Net factor income from abroad.}$$



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Net National Product (NNP) at Market

Price: NNP is the market value of all final goods and services after providing for depreciation. That is, when charges for depreciation are deducted from the GNP we get NNP at market price.

Therefore

$$\text{NNP} = \text{GNP} - \text{Depreciation}$$



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Net National Product (NNP) at Factor Cost (National Income):

NNP at factor cost or National Income is the sum of wages, rent, interest and profits paid to factors for their contribution to the production of goods and services in a year. It may be noted that:

$$\text{NNP at Factor Cost} = \text{NNP at Market Price} - \text{Indirect Taxes} + \text{Subsidies.}$$



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Personal Income: Personal income is the sum of all incomes actually received by all individuals or households during a given year.

Personal Income = National Income – Social Security contributions – corporate income taxes – undistributed corporate profits + transfer payments.



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Disposable Income: From personal income if we deduct personal taxes like income taxes, personal property taxes etc. what remains is called disposable income. Thus,

Disposable Income = Personal income
– personal taxes.



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Population

All the inhabitants of a particular place

A community of animals, plants, or humans among whose members interbreeding occurs

A **population** is all the organisms of the same group or species, which live in a particular geographical area, and have the capability of interbreeding



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Demographic economics or **population economics** is the application of **economic analysis** to demography, the study of human **populations**, including size, growth, density, distribution, and vital statistics.

Malthusian :pertaining to the theories of Malthus, which state that population increases faster than the means of subsistence unless war, famine, or disease intervenes or efforts are made to limit population.



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Over Population

Overpopulation is an undesirable condition where the number of existing human population exceeds the carrying capacity of Earth.

Overpopulation is caused by number of factors. Reduced mortality rate, better medical facilities, depletion of precious resources are few of the causes which results in **overpopulation**.



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Under Population

Under population is the type of population that is less than the available resources of a country. It then means that the size of the population is so small that when combined with the available resources of a country and given the level of existing technology, it will secure minimum returns per head having a **population** lower than is normal or desirable lacking the normal or required population density.



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Optimum Population

The population which has the highest per capita income is known as optimum population”

‘Optimum population’ as that which produces maximum welfare

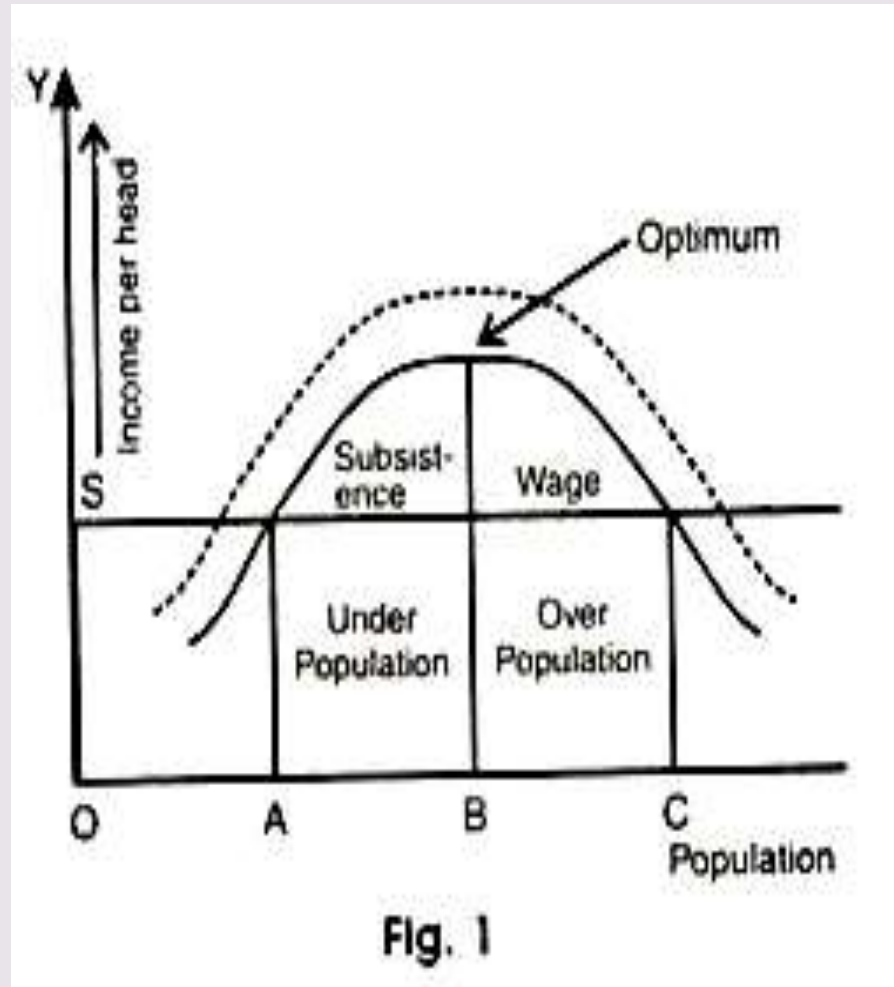


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Theory

The founders of the theory state it as "Given the natural resources, stock of capital and the state of technical knowledge, there will be a definite size of population with the per capita income.





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The optimum theory is based on two important assumptions

The proportion of working population to total population remains constant as the population of the country increases.

As the population of a country increases, the natural resources, the capital stock and state of technology remain unchanged.



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In the diagram I, volume of population is shown along OX axis and income per head along OY-axis. OS is the income per head which gives only subsistence wage rate to the population. This level of wages puts the minimum limit to the income per head.

OB shows optimum population which uses the available resources to give itself the maximum income per head. For a population less than OB, income per head increases with the increase in population

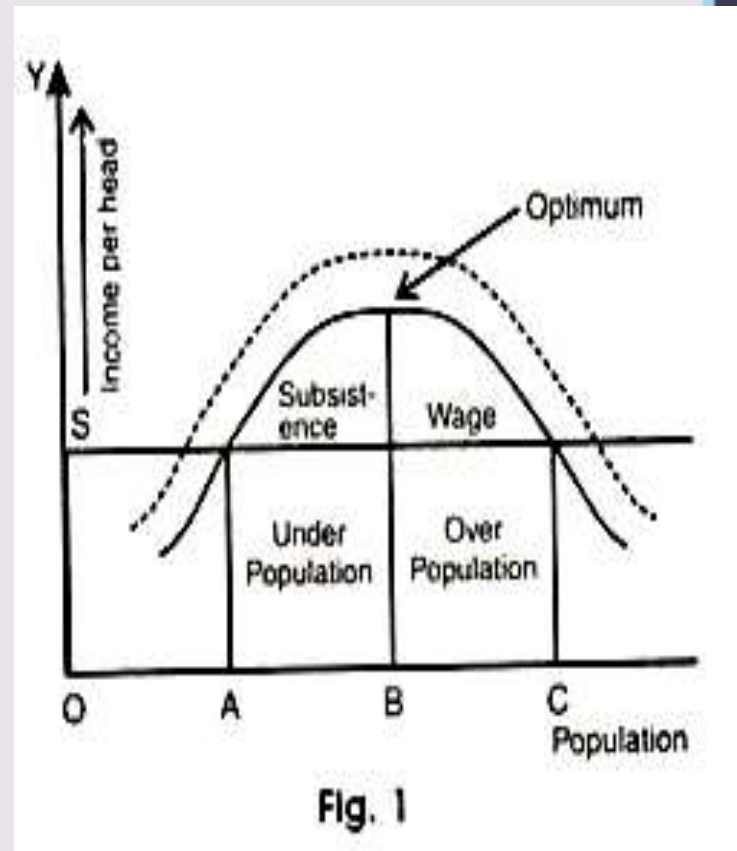


Fig. 1



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The subsistence income per head can prevail with two levels of population

When population is too small to exploit the country's resources with maximum efficiency. This is the level of OA population.

When population is too large and the efficiency falls to give only a subsistence income to the labour force. This is the level of OC population.

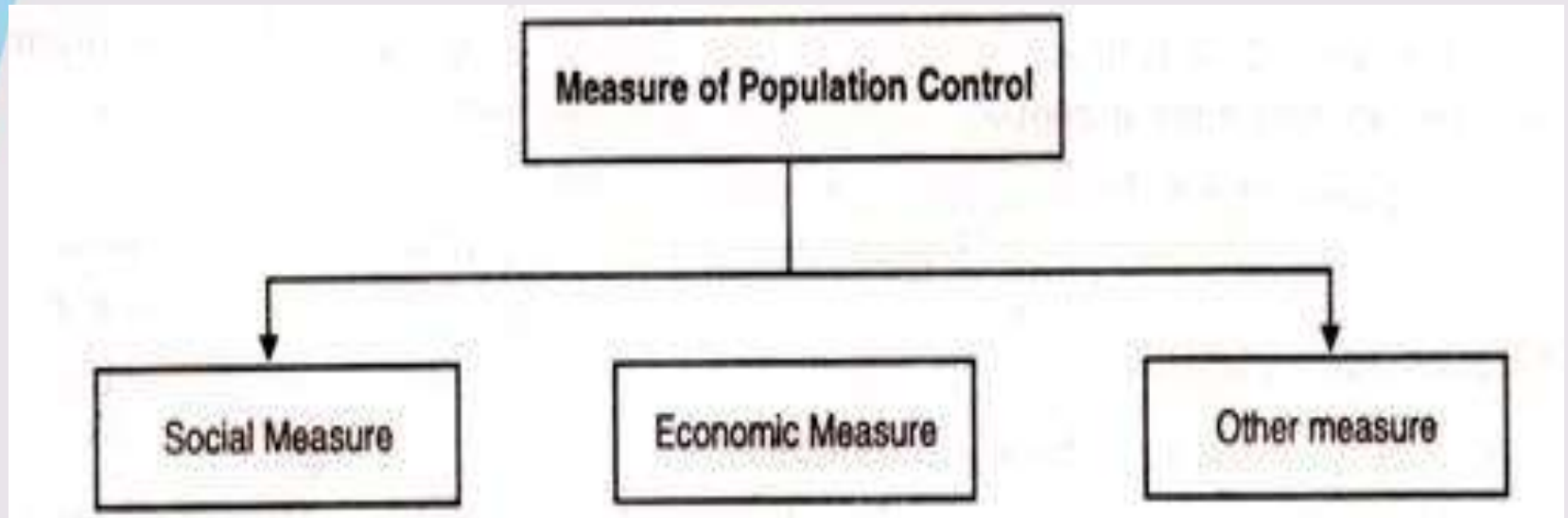


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Measures to control Population

Population of India is quite large and rapidly increasing. One percent growth rate means an addition of 1 crore people every year but actually speaking 2 crore persons are being adding every year.





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Social Measure

Population explosion is a social problem and it is deeply rooted in the society. So efforts must be done to remove the social evils in the country.

Minimum age of Marriage

Raising the Status of Women

Spread of Education

Adoption

Change in Social Outlook

Social Security



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Control Measures

More employment opportunities

**Development of Agriculture and
Industry**

Standard of Living

Urbanization



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Other Measures

Late Marriage

Self Control

Family Planning

Recreational Facilities

Publicity

Incentives

Employment to Woman



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