

## NATIONAL INCOME – BASIC CONCEPTS

### *National Income & Domestic Income*

#### **National Income-**

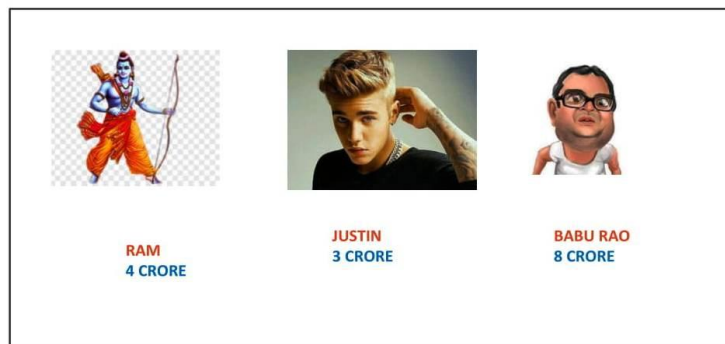
- It is the value of Goods & service
- produced by the Residents of an economy/country
- In an accounting year.
- (Whether within the economy or anywhere in rest of the world)

#### **Domestic Income-**

- It is the value of goods and services
- produced within the economy/country
- in an accounting year (or any specified time)
- (Whether by a Resident of a Non- Resident)



**USA**



**INDIA**

***Domestic Income = (4+8+3) = 15 Corer***

***National Income = (4+8+5) = 17 Corer***

## **Resident and Domestic Territory**

### **Resident –**

- A person is said to be resident of a country if
- His Centre of Economic interest lies in that country &
- He resides in that country for 182 days or more in the preceding financial year.

It also includes

- Person coming in India for employment for carrying business or vocation India.
- Any office, branch or agency of an Indian Institution outside India

But Excludes:

- Diplomat and foreign Tourist commercial travelers, tourist, student
- People working in international organisations like WHO, IMF or UNESCO etc. (their income is added to income of the country where they normally reside)

### **Domestic Territory:**

Domestic Territory (also called as Economic Territory) is the geographical area which is administered and governed by the Government of a particular country and includes

- Political Frontiers including territorial water and airspace
- Embassies, consulates, military base etc located abroad
- Ships and Aircrafts located by residents between two or more countries.
- Fishing vessel oil & Natural gas rigs operated by residents in international water.

National Incomes includes only Factor Income does not include Transfer Income

**Factor Income-** Income earned because of rendering factor services like land , labour and capital in the form of factor payment like rent, wages and interest is called factor income

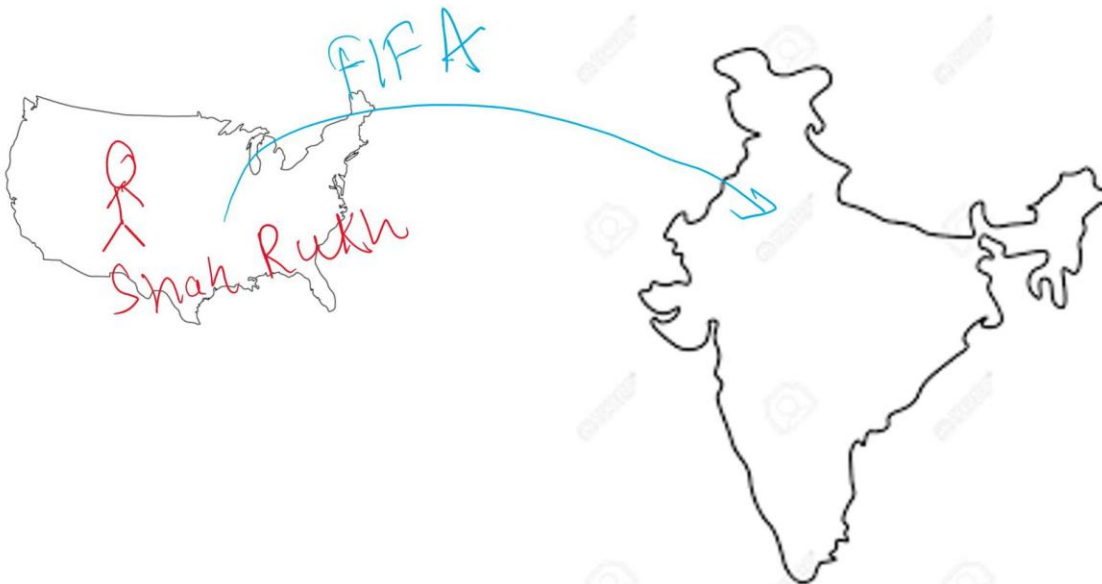
**Transfer Income-**Payment received against which no services/goods have been provided is called as transfer income.

<b>Basis</b>	<b>Factor Income</b>	<b>Transfer Income</b>
<b>Meaning</b>	Payment received against rendering productive, Services like land, labour, Capital or entrepreneurs is called factor income.	Payment received against which no services/goods have been provided is called as transfer income.
<b>Unilateral/ Bilateral</b>	It is a bilateral payment.	It is a unilateral payment.
<b>Inclusion in National Income</b>	It is included in National Income	It is not included in National Income
<b>Earned/ Unearned</b>	It is earned Income.	It is unearned Income.
<b>Example</b>	Rent, Interest, Wages, Profit.	Gifts, Scholarship ,Donation

**Factor Income from Abroad and Factor Income to abroad:-**

**Factor Income from Abroad-** Income earned by residents of a country from its operation in any other country. It includes foreign profits and remittances that workers send back to their countries.

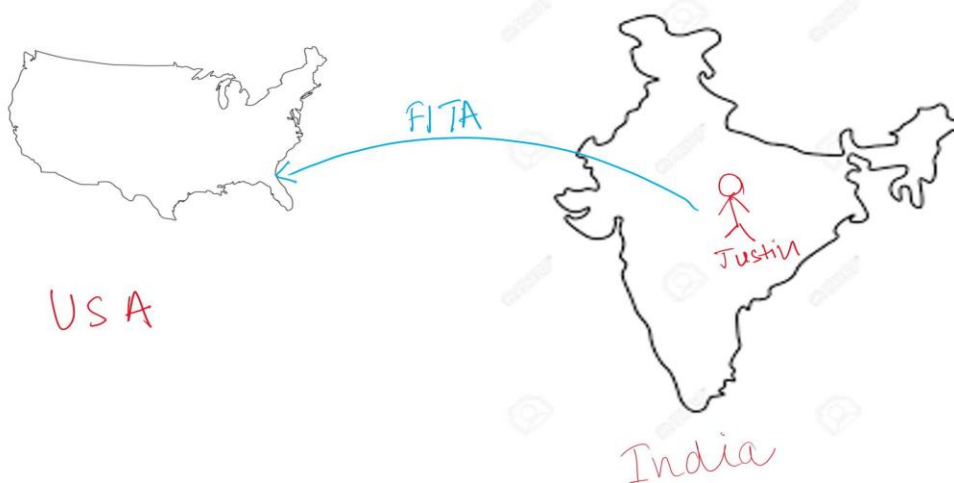
It is included in National Income and not included in domestic Income.



**Factor**

**Income to Abroad:-** Income earned by Non-residents of a country within the domestic territory of a country. It includes factor incomes remitted abroad by Non- Residents.

It is not included in national income but not included in Domestic Income.



### **Conversion between Domestic Income and National Income –**

$$\text{National Income} = \text{Domestic Income} + \text{FIFA} - \text{FITA}$$

$$\text{Domestic Income} = \text{National Income} - \text{FIFA} + \text{FITA}$$

$$(\text{NFIA}) \text{ Net Factor Income from Abroad} = + \text{FIFA} - \text{FITA}$$

$$(\text{NFITA}) \text{ Net factor Income to Abroad} = - \text{FITA} + \text{FIFA}$$

$$\text{National Income} = \text{Domestic Income} + \text{NFIA}$$

### **Gross and Net Value**

**Depreciation** – In economics, depreciation is the gradual decrease in the economic value of the capital stock of a firm, nation or other entity, either through physical depreciation, obsolescence or change in demand for services of capital in Question.

**Gross value-** It is the value of output produced exclusive of depreciation.

**Net Value-** It is the value of output after deducting depreciations.

### **Conversion between Gross Value and Net Value**

$$\text{Net Value} = \text{Gross Value} - \text{Depreciation}$$

$$\text{Grosse Value} = \text{Net Value} + \text{Depreciation}$$

### **Factor Cost and Market Price**

**Factor Cost:** - It is the Cost incurred on all factors of production in producing a good/service.

Since it includes all cost including profit (which is a cost paid to entrepreneurs a factor of production). Hence we can say it is Sale Value the only difference being it excludes taxes & subsidy.

**Market Price:** - It is the value at which goods are ultimately sold in the market; it includes the effect of tax and subsidy.

Conversion between Factor Cost & Market Price: -

$$\text{Market Price} = \text{Factor Cost} + \text{Indirect Taxes} - \text{Subsidy}$$

### **Recap:**

(G) Gross                      Net (N)

(D) Domestic                National (N)

(MP) Market Price      Factor Cost (FC)

National Income = Domestic Income + FIFA – FITA

Domestic Income = National Income – FIFA + FITA

Net Value = Gross Value – Depreciation

Gross Value = Net Value + Depreciation

Market Price = Factor Cost + Indirect Taxes – Subsidy

**Questions for practice on National Income:**

1. Gross Domestic Product = 800  
Factor Income to Abroad = 80  
Factor Income from Abroad = 50  
Gross National Product = ?
2. Net National Product = 1500  
Factor Income to Abroad = 150  
Depreciation = 225  
GDP = ?
3. Gross Domestic Product at Market Price = 1800  
Depreciation = 120  
Factor Income From Abroad = 100  
Factor Income To Abroad = 250  
Indirect Taxes = 150  
Calculate Gross National Product at Factor Cost
4.  $NNP_{FC} = 2200$   
 $NFITA = 250$   
Capital Consumption Allowance = 120  
Indirect Tax = 300  
Subsidy = 40  
 $GDP_{MP} = ?$
5.  $GDP_{FC} = 1800$   
Net Factor Income From Abroad = -300

Indirect Tax = 250  
Depreciation = 100  
Calculate National Income.

6. Gross Value Added at Market Price = 500  
Net Factor Income to Abroad = - 20  
Net Subsidy = - 80  
Depreciation = 100  
Calculate National Income.

7.  $GNP_{FC} = 1800$   
 $NDP_{MP} = 1200$   
Depreciation = 250  
Indirect Tax = 70  
Calculate Factor Income From Abroad.

8.  $NDP_{FC} = 2250$   
Net Factor Income to Abroad = 150  
Depreciation = 200  
 $GDP_{MP} = 2400$   
Indirect Tax = 50  
Calculate Subsidy = ?

9. National Income = 2720  
Net Factor Income to Abroad = 220  
Depreciation = 300  
Net subsidy = -200  
Calculate  $GDP_{MP}$

10. Gross Value Added at Market Price = 870  
Net Factor Income from Abroad = -110  
Depreciation = 80  
Net Indirect Tax = 150  
Subsidy = 50  
Calculate National Income.

***Explain whether the following will be included in computation of National Income.***

1.	Construction of new house
	Reason:

2.	Winning of a lottery Prize or Crossword or contests or other Windfall Gains.
	Reason:
3.	Increase in the price of stocks lying with a trader
	Reason:
4.	National debt interest or Interest on public debt.
	Reason:
5.	Rent –free house given to an employee by an employer.
	Reason:
6.	Profits earned by the branches of a foreign bank in India
	Reason:
7.	Purchases by foreign tourists.
	Reason:
8.	Rent received by Indian residents on their buildings rented out to foreigners in India.
	Reason:
9.	Payment of fees to a lawyer engaged by a firm
	Reason:
10.	Free medical facilities by the employer
	Reason:
11.	Gifts received from abroad
	Reason:
12.	Profits of Reliance Industries from its chemicals business in Australia
	Reason:
13.	Salaries received by Indian residents working in Russian Embassy in India.
	Reason:
14.	Subsidized lunch served to workers in a factory.
	Reason:
15.	Old Age Pension
	Reason:

<b>16.</b>	Durable goods purchased by a household
	Reason:
<b>17.</b>	Profits earned by an Indian bank from its branches abroad
	Reason:
<b>18.</b>	Earnings of shareholders from the sale of shares
	Reason:
<b>19.</b>	Expenditure on advertisement by a firm
	Reason:
<b>20.</b>	Receipts from sale of land
	Reason:
<b>21.</b>	Financial help received by flood victims
	Reason:
<b>22.</b>	Purchase of a machine by a factory
	Reason:
<b>23.</b>	Purchase of taxi by a taxi-driver
	Reason:
<b>24.</b>	Royalty.
	Reason:
<b>25.</b>	Commission on sale of second-hand goods
	Reason:
<b>26.</b>	Brokerage payment on sale of shares
	Reason:
<b>27.</b>	Dividend received by an Indian from his investment in shares of a foreign company.
	Reason:
<b>28.</b>	Purchase of raw materials by a production unit.
	Reason:
<b>29.</b>	Earnings of a self-employed doctor having a clinic at his own residence.
	Reason:



<b>30.</b>	Money received from sale of second-hand goods
	Reason:
<b>31.</b>	Imputed rent of self occupied houses
	Reason:
<b>32.</b>	Contribution to provident fund by employer
	Reason:
<b>33.</b>	Value of interest foregone on loans provided by employer to employee
	Reason:
<b>34.</b>	Wheat grown by a farmer but used entirely for family's consumption.
	Reason:
<b>35.</b>	Expenditure on the construction of a flyover by the government
	Reason:
<b>36.</b>	Commission received by a dealer from the buyer and seller of a house
	Reason:
<b>37.</b>	Growing vegetables in a kitchen garden of the house.
	Reason:
<b>38.</b>	Services rendered by family members to each other
	Reason:
<b>39.</b>	Expenditure by government in providing free education.
	Reason:
<b>40.</b>	Expenditure on providing police services by the government.
	Reason:
<b>41.</b>	Insurance premium paid by an household
	Reason:
<b>42.</b>	Fees received from student
	Reason:
<b>43.</b>	Mineral wealth of a nation
	Reason:

44.	Value of wood purchased for manufacturing a table
	Reason:
45.	Purchase of equipments for installation in factory.
	Reason:
46.	Payment of interest tax
	Reason:
47.	Goods and services tax received by the government.
	Reason:
48.	Salaries paid to Russians working in Indian Embassy in Russia
	Reason:
49.	Capital gains to Indian residents from sale of shares of a foreign company
	Reason:
50.	Harish works in USA and sends money to his family in India.
	Reason:
51.	Destruction of building due to an earthquake
	Reason:
52.	HP uses its own new laptops in its office for self consumption.
	Reason:
53.	Purchases of a truck to carry goods by a production unit.
	Reason:
54.	Direct purchase made abroad by Government
	Reason:
55.	Earning from a part time job in McDonalds by a student.
	Reason:
56.	Receipt from sale of property, inherited from a relative.
	Reason:
57.	Entertainment allowance to an employee for entertaining business guests.
	Reason:

<b>58.</b>	Expenditure on the purchase of shares of a new company.
	Reason:
<b>59.</b>	Sale of bonds by a company.
	Reason:
<b>60.</b>	Purchase of shares by a domestic firm.
	Reason:
<b>61.</b>	Goods lying within the production boundary.
	Reason:
<b>62.</b>	Money received by a family in India from relatives working abroad.
	Reason:
<b>63.</b>	Dividend received by a family in India from relatives working abroad.
	Reason:
<b>64.</b>	Dividend received by a foreigner from investment in shares of an Indian company.
	Reason:
<b>65.</b>	Sale of an old house
	Reason:
<b>66.</b>	Expenditure on the purchase of an old house.
	Reason:
<b>67.</b>	Insurance money received from Oriental Insurance due to destruction of factory due to fire.
	Reason:
<b>68.</b>	Payment of interest by banks to depositors
	Reason:
<b>69.</b>	Payment of interest by a firm to a bank
	Reason:
<b>70.</b>	Interest received on loans given to a friend for purchasing a car.
	Reason:
<b>71.</b>	Interest received on loan given to a foreign company in India
	Reason: