Government of Tamil Nadu

Department of Employment and Training

Course TNPSC Combined Civil Services Examination - IV(Group IV / VAO)

Subject Indian Economy

Topic National Income

National Income

Definitions of National Income

National income is a measure of the total value of the goods and services (output) produced by an economy over a period of time (normally a year).

Basic Concepts

Gross National Product

Gross National Product (GNP) is the total value of output (goods and services) produced and income received in a year by domestic residents of a country. It includes profits earned from capital invested abroad.

Gross Domestic Product

Gross Domestic Product (GDP) is the total value of output (goods and services) produced by the factors of production located within the country's boundary in a year.

The factors of production may be owned by any one – citizens or foreigners.

GNP – Net income earned from abroad = GDP

Thus, GDP measures income from where it is earned rather than who owns the factors of production.

Net National Product

Net National Product (NNP) is arrived at by making some adjustment, with regard to depreciation, in GNP. As noted above, GNP is the total value of output produced and income received in a year by domestic residents of a country.

GNP – Depreciation = NNP

Net Domestic Product

Net domestic product (NDP) is also arrived from GDP by making adjustment with regard to depreciation in the same way described above. (NDP is calculated by deducting depreciation from GDP)

GDP-Depreciation = NDP

Per Capita Income

Per capita income (or) output per person is an indicator to show the living standards of people in a country. If real PCI increases, it is considered to be an improvement in the overall living standard of people. PCI is arrived at by dividing the GDP by the size of population. It is also arrived by making some adjustment with GDP.

PCI = GDP/ Total number of people in a country

Methods of Calculating National Income

1. Product or Output Method
2. Income Method
3. Expenditure Method

Problems in calculating National Income

- Black Money
- Non-Monetization
- Growing Service Sector
- Household Services
- Social Services
- Environmental Cost

Inflation

Crowther has given us the most simple and useful definition of these terms. According to Crowther, "Inflation is a state in which the value of money is falling, i.e, prices are rising". So it is generally regarded that during a period of inflation, the price level will rise. It is also described as a situation where too much money chases too few goods resulting in an abnormal increase of price level.

Types of Inflation

1. Demand Pull Inflation
   - Creeping or Persistent inflation
   - Runaway or Galloping or Hyper Inflation
2. Cost Push Inflation
   - Bottleneck Inflation
   - Profit –Push Inflation

Inflation can be checked by some or all of the following measures.

- Increased taxation
- By reducing government expenditure on capital projects
- Restrictions on imports
- Rationing
- Price controls
- Sometimes a “wage freeze’ is recommended to check inflation

Deflation

Crowther, defines deflation as a “state in which the value of money is rising, i.e., prices are falling”. Both inflation and deflation refer to the movement of prices. Deflation is the opposite of inflation.

Generally inflation is a period characterized by rising activity and employment. But during deflation, there will be bad trade and unemployment.

During deflation, since prices fall faster than costs, there will be heavy losses for producers and businessmen. There will not be profits in any branch of economic activity. So there will be a fall in investment. This results in unemployment. Both inflation and deflation are evils.

- High inflation and high deflation will cause harm to economic prosperity.
- When a country is in a state of development, there will be inflation.
- There will be deflation when a country is in recession.

Inflation

Adversely Affected	**Beneficiaries**
Creditors	Debtors
Permanent income persons	Traders
Investors in government bonds	Saving group
Importers	Exporters

Deflation

Adversely Affected	**Beneficiaries**
Business person	Permanent Income persons
Debtors	Creditors
Investors in Institutional bonds	