BHARAT SCHOOL OF BANKING
NATIONAL INCOME

National Income is the **total value** of all the new **goods and services** produced as **final output** of a **country** in a **year**.

First try to understand how a **product** is **manufactured** and **sold**.

Typically, **goods** are **produced** in several **stages**. At one stage, **raw materials** are converted by firms, and then **sold** to another firms for next stage. **Value** is **added** at each **intermediate** stages. At the **final** stage, a **retail selling price** is tagged with the **final product**. Note that the **retail price** reflects the **value** added in terms of all the **resources** used in all the **previous stages** of **production**.

Final goods

To avoid the **problem** of **double counting**, only the **value** at the **final stage**, i.e., the **retail price** of the **final good** is included (not the **value** added in all the **intermediate stages -** the **cost of production** and **profit**)

Therefore, while considering **National Income**, the **value** of **all** the **final goods** (and **services**) produced in a **year** in a **country** is calculated.

For example, suppose a **car** has a **retail price** of **Rs. 5 lakh**. This **retail price** includes **Rs. 2.5 lakh** for **components**, **Rs. 50,000** for **assembly** of components, and **Rs. 1 lakh** for **marketing** purpose, and also a **Profit** of **Rs. 1 lakh**.
To avoid **double-counting,** the **national income** accounts only the **value** at the **final stage** (in this case **Rs. 5 lakh,** i.e, the **selling price** of the car)

Methods of calculating National Income

Consider the following **example** first -
Suppose, you bought a **book** worth **Rs. 100**. It means, your **expenditure** is **Rs. 100**, **income** of the **bookseller** is **Rs. 100**, and the **value** of the **book** is **Rs. 100**.
Therefore, the **transaction** involves **3** elements -

- **Expenditure** by **purchaser**
- **Income** of **seller**
- **Value** of **goods**

All of the **transactions** can be looked at in the same way, making **3 methods** of calculating **National Income -**

1. **Production Method** - This method is based on the **total production** of a country during a **year**. The combined **value** of the **new** and **final output** produced in all **sectors** of the **economy** (including **foreign income** of production) is considered to determine the **national income**.
2. **Income Method** - This method adds all **incomes** received by the factors of production generated in the **economy** during a **year**. It includes **wages** from employment, **profits** to firms, **interests** to lenders, **rents** to landlords, and **income** from abroad.

3. **Expenditure Method** - This method adds all **spending** in the **economy** by **households** and **firms** on **final goods and services** and **spending** by **government.**