Intermediate Course

Paper 8B

Economics for Finance

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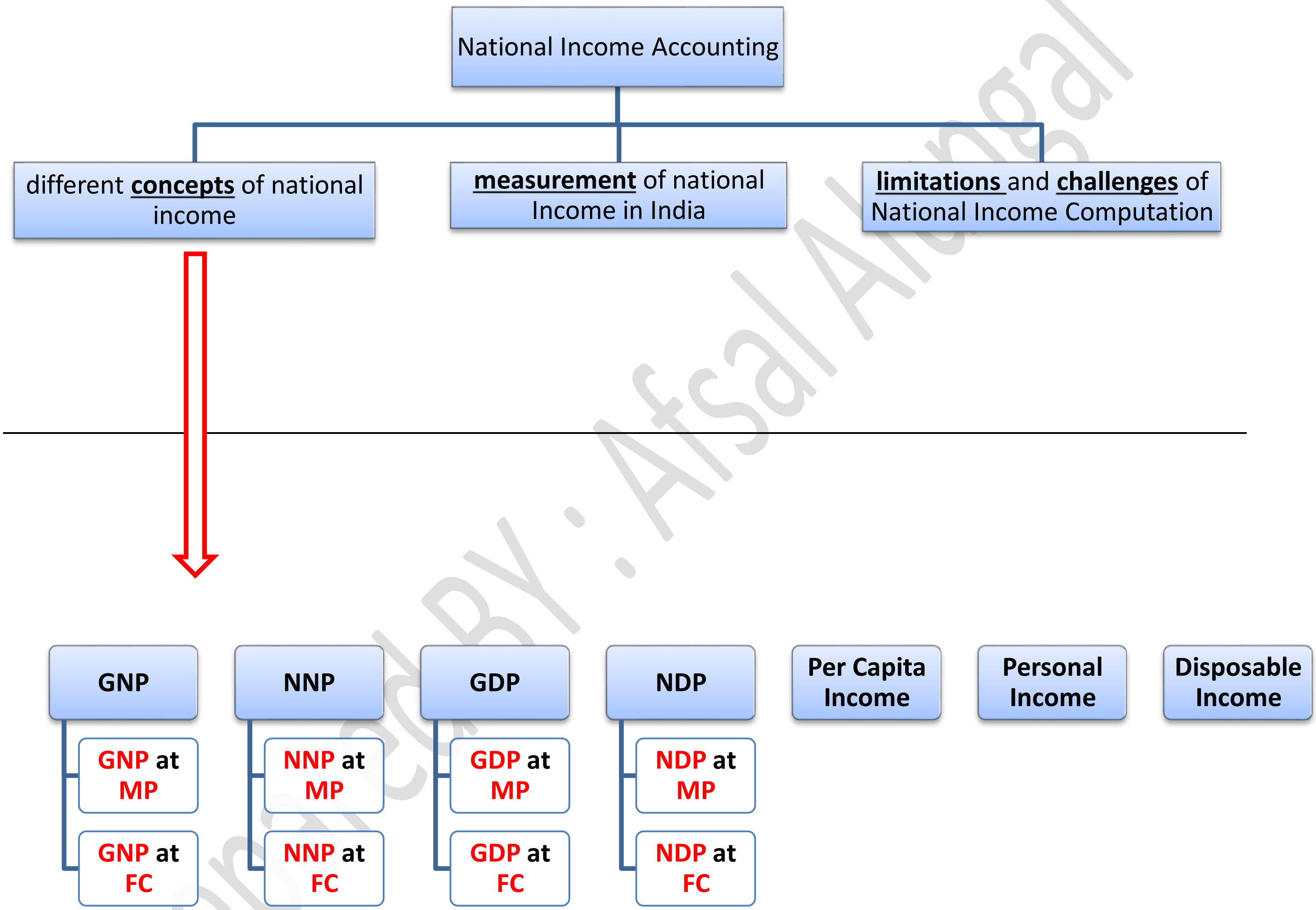
Chapter 1-

Determination of National Income



Gross Domestic Product (GDP)

1. GDP MP = value of output in the domestic territory – value of intermediate consumption
2. GDP FC = **GDP MP – Indirect Taxes + Subsidies**

- **Market Price** = Factor Cost + **Net Indirect Taxes**

  = Factor Cost + **(indirect taxes – subsidies)**

- **Factor Cost** = Market Price - **Net Indirect Taxes**

  = Market Price - **(indirect taxes + subsidies)**

GDP FC	**= compensation of employees + operating surplus (rent + interest + profit) + Mixed Income of Self – Employed + DEPRECIATION**

Gross National Product (GNP)

1. **GNP MP = GDP MP + Net Factor Income From Abroad**
2. **GDP MP = GNP MP - Net Factor Income From Abroad**

***National =**	**Domestic + Net Factor Income From Abroad**

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Net Domestic Product (NDP)

1. NDP_{MP} = (GDP_{MP} - Depreciation)

2. NDP_{MP} = NNP_{MP} - Net Factor Income From Abroad

Gross =	Net + Depreciation
Net =	Gross - Depreciation

3. NDP_{FC} = (NDP_{MP} - Net Indirect Taxes)

= compensation of employees

+ operating surplus (rent + interest + profit)

+ Mixed Income of Self – Employed

(* without DEPRECIATION)

Net National Product (NNP)

1. NNP_{MP} = GNP_{MP} - Depreciation

2. NNP_{MP} = NDP_{MP} + Net Factor Income From Abroad

3. NNP_{MP} = GDP_{MP} + Net Factor Income From Abroad - Depreciation

4. **NNP FC or National Income**

NNP_{FC} = National Income

NNP_{FC} = FID + NFIA

FID (factor income earned in domestic territory)

NFIA (net factor income from abroad)

- If **NFIA is positive** then National Income will be **Greater than** Domestic Factor Income

Per Capita Income (2 Mark Questions)

- Country's Economic output per person
- Obtaining by dividing the country's GDP adjusted by Inflation by the total Population

  GDP Adjusted by Inflation
  Total Population
- Serve as an indicator of the standard of living of a country

Personal Income (PI)

- is a measure of the actual current income receipt of persons from all sources

- **PI = NI + Income Received But Not Earned – Income Earned But Not Received**

- **An important point to remember is that National Income is NOT the sum of personal incomes because personal income includes TRANSFER PAYMENTS (eg . pension) which are excluded from national income**

Disposable Income (DI)

- Income that is available for their **Consumption or Savings**
  DI = PI – Personal Income Taxes

Measurement Of National Income In India