National Income

National income is the value of the aggregate output of the different sectors during a certain time period. In other words, it is the flow of goods and services produced in an economy in a particular year. Thus, the measurement of National Income becomes important. National Income is total amount of goods and services produced within the nation during the given period say, 1 year. It is the total of factor income i.e. wages, interest, rent, profit, received by factors of production i.e. labour, capital, land and entrepreneurship of a nation.

According to Marshall, " The labor and capital of a country acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is the true net annual income or revenue of the country or national dividend."

Measurement of National Income

There are three ways of measuring the National Income of a country. They are from the income side, the output side and the expenditure side. Thus, we can classify these perspectives into the following methods of measurement of National Income.

Methods of Measuring National Income

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

1. Product Method

Under this method, we add the values of output produced or services rendered by the different sectors of the economy during the year in order to calculate the National Income. In this method, we include only the value added by each firm in the *production* process in the output figure. Hence, we use the value-added method. The value-added output of all the sectors of the economy is the GNP at factor cost.

However, this method is unscientific as it adds the value of only those goods and services that are sold in the market or are available for sale in the market.

2. Income Method

Under this method, we add all the incomes from employment and ownership of assets before taxation received from all the production activities in an economy.

Thus, it is also the Factor Income method. We also need to add the undistributed profits of the private sector and the trading surplus of the public sector corporations.

However, we need to exclude items not arising from productive activities such as sickness benefits, interest on the national debt, etc.

3. Expenditure Method

This method measures the total domestic expenditure of the economy. It consists of two elements, viz. Consumption expenditure and Investment expenditure.

Consumption expenditure includes consumption expenditure of the household sector on goods and services and consumption outlays of the business sector and public authorities.

Investment expenditure refers to the expenditure on the making of fixed capital such as Plant and Machinery, buildings, etc.

Difficulties in Measurement of National Income

Following are the difficulties in estimating the National Income

- Conceptual difficulties
- Statistical difficulties

A. Conceptual difficulties

1. It is difficult to calculate the value of some of the items such as services rendered for free and goods that are to be sold but are used for self-consumption.
2. Sometimes, it becomes difficult to make a clear distinction between primary, intermediate and final goods.

3. What price to choose to determine the monetary value of a National Product is always a difficult question?

4. Whether to include the income of the foreign companies in the National Income or not because they emit a major part of their income outside India?

B. Statistical difficulties

1. In case of changes in the price level, we need to use the Index numbers which have their own inherent limitations.
2. Statistical figures are not always accurate as they are based on the sample surveys. Also, all the data are not often available.
3. All the countries have different methods of estimating National Income. Thus, it is not easily comparable.