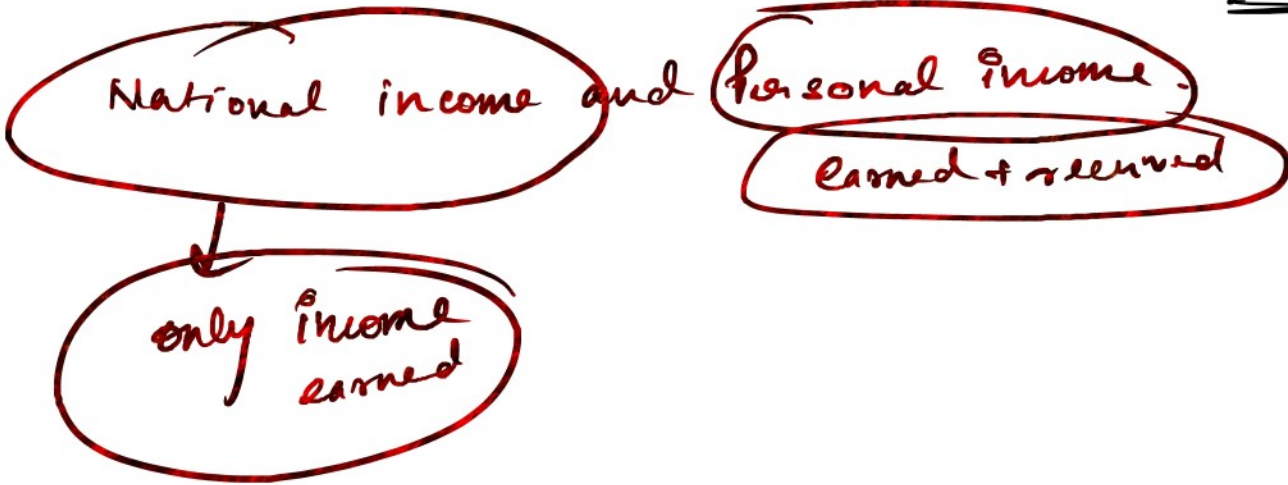


National Income

↓
money earned as well as received.



National income is defined as the income earned by resident of a nation by participating in some productive activity. It generates some value (in terms of money) in the economy.

for example: wages, salary, rent ~~etc~~, interest rates etc.
productive activity can be defined as the work done through exchange, that creates utility.

On the other hand sometimes a person does not participate in any productive work but still gets some income and is called received income.

Ex: transfer payments and Capital Gains

ie, { unemployment assistance, pension, ~~the~~ social security funds etc. }

↓
ex: buying and selling of land, bond on any asset }

so when it is income earned by a person, it will be ~~that~~ treated as personal income as well as included in National income.
But when it is the case of income received by a person, it will be treated only as his personal income but not national income.

Gross Domestic Product (GDP)

GDP of a nation can be defined as the money value of all final ~~for~~ goods and services produced within the national boundary in a given period of time (generally one year).

where as GNP (Gross National Product) is defined as the money value of all national products.

where as **GNP** ^{gross national product} is defined as the money value of all final goods and services produced by domestically owned factors of production in a given period of β time (generally a year).

Relation between **GDP** and **GNP**

$$GNP = GDP + \text{factor payments from abroad} - \text{factor payments to abroad.}$$

Real GDP v/s Nominal GDP
 (price adjusted) (price not adjusted)

Nominal GDP of a nation measures the money value of all final goods and services produced within the national boundary of the country in a given period of time at current prices.

Thus if we want to measure the nominal GDP of year 2010, then,

$$\text{Nominal GDP}_{2010} = \left(\text{Price of different goods and services produced in the economy} \right)_{2010} \times \left(\text{quantity produced in } 2010 \right)$$

On the other hand, **Real GDP** of a nation measures ... and services produced

On the other hand, **Real GDP** of a nation measures money value of all goods and services produced within the national boundary of a country in a given period of time at **constant or base year prices**.

Ex: Real GDP of 2010 with 2000 as base year.

$$\text{Real GDP}_{2010} = \left(\text{Price of goods \& services in 2000} \right) \times \left(\text{Quantity of goods and services in 2010} \right)$$

Why **Real GDP** is a better indicator of economic growth than nominal GDP?

Important

What is **GDP deflator** →

$$\text{GDP deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}}$$

$$\text{or Real GDP} = \frac{\text{Nominal GDP}}{\text{GDP deflator}}$$

also called **price index** because it measures **inflation rate** in economy.

Few important formulas related to GDP and Disposable personal income

$$\text{Gross GNP (Mkt price)} - \text{Net Exports} + \text{FP from abroad} - \text{FP to abroad} = \text{GDP (Mkt price)}$$

✓ GNP_{mkt} price

✓ GDP_{mkt} price

$$GNP_{mkt} = GDP_{mkt} \pm \textcircled{NFIA}$$

✓

2. ✓ \textcircled{N} Net National product

$$NNP_{mkt} = \underline{GNP} - \underline{\text{depreciation cost}}$$

2. ✓ NDP mkt price

$$NDP_{mkt} = \underline{GDP} - \underline{\text{depreciation cost}}$$