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Part - 01 Paper - II
Topic - National Income (Introduction)

National Income (N.I) is a monetary measure and can be defined as the total market (money) value of all final goods and services produced in the economy in an accounting year. It includes the market value of all final goods and services and ignores the transaction involving intermediate goods.

According to A.C. Pigou, "N.I is that part of objective income of the community, including of course income derived from abroad which can be measured in money."

From the modern point of view Simon Kuznet has defined N.I as, "the net output of the commodities and services flowing during the year from country's productive system in hands of ultimate consumers.

The basic feature of N.I are -

1. N.I is counted for a period of one accounting year. The accounting period in India is 1st April - 31st March.
2. N.I is a flow concept means N.I measures flow of goods and services during a year.
3. Only final goods and services are included in calculation of N.I, It implies that intermediate goods are not included in calculation of N.I.

4. N.I is always expressed in terms of monetary value of goods and services.

Let us take an economy where there are only two ~~factors of production~~ agents, households and firms.

Firms are required to produce goods.

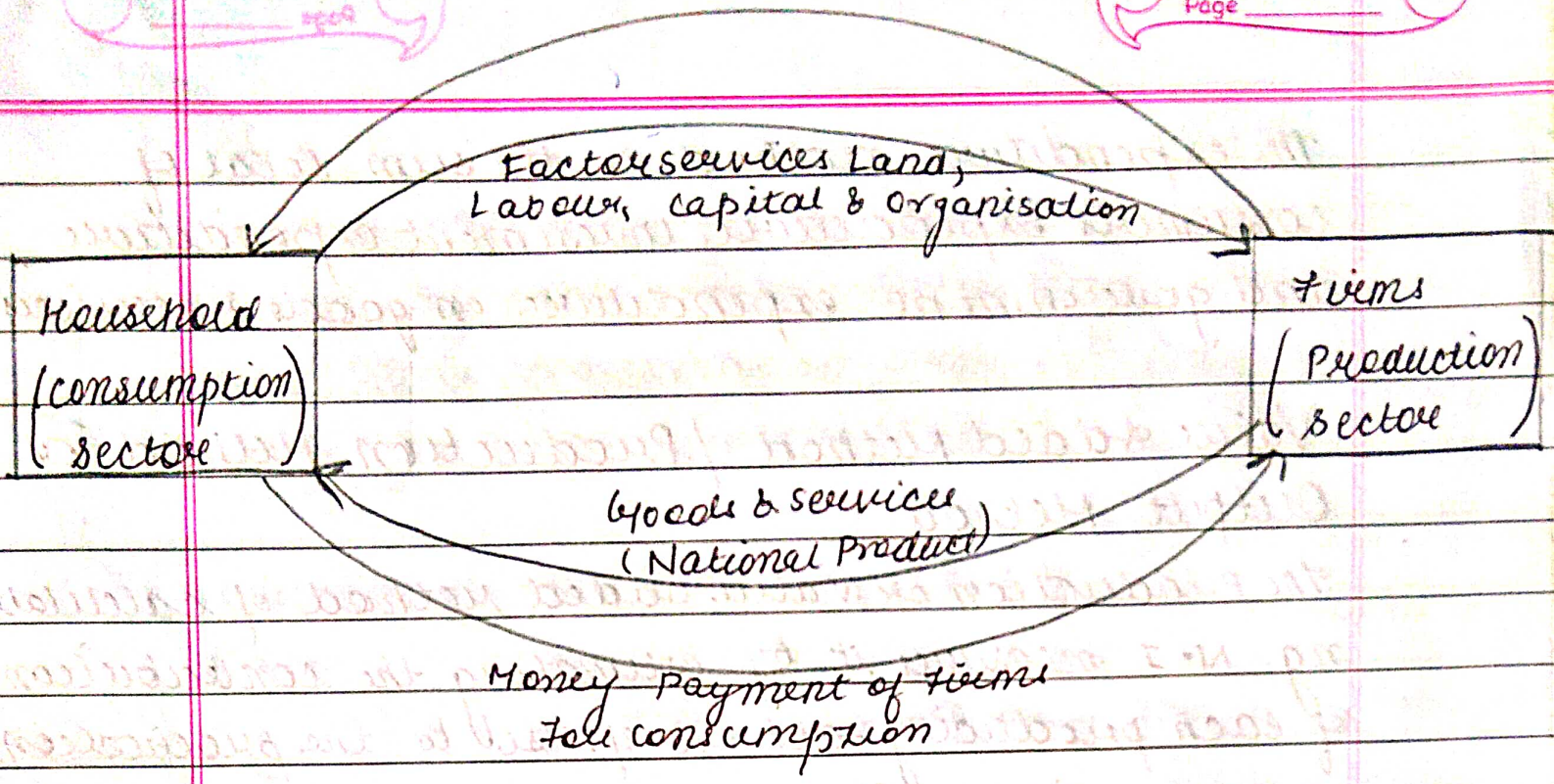
To produce goods they require services of factors of production (L, L, K, E)

The factors of prod^n are paid the reward for their contribution to the production of goods. Thus income of these factors arises in the course of prod^n.

The sales value of the net production must be equal to the sum total payment made by the firms to the factors of production, in the forms of wages/salaries, rents, interest or profit.

These incomes in return becomes the source of expenditure.

Hence income flows from the firms to households in exchange for the productive services, this income again returns to the firm when expenditure is made by the household on the ~~goo~~ goods produced by them.



From above it follows that national income equals national product equals national expenditure
i.e N.I = National Product = National expenditure

There are three methods for measuring N.I
1. Production Method /output ~~Meth~~ Method /Value Added Method.
2. Income Method
3. Expenditure Method.

The production method is the sum total ~~metho~~ value of all final goods and services produced.
The income method is the sum total of all income in cash and kind incurring to the factors of production in a year

The expenditure method is the sum total of consumer's expenditure, investment expenditure and government expenditure on goods & services