

# National Income & Disposable Income



## Introduction

These two concepts are used in an economy to measure the prosperity of a nation. The definition of income differs from person to person or from entity to entity. In economic terms income means the total of wages, salary, profits, rent, interest and many other gains over a period of time.

## What Is National Income?

National income means the total value of the total output of a nation, it includes all goods and services produced over a period of one year.

### Definition Of National Income

There are two types of definition

#### 1) Traditional definition

According to Marshall: "The labour 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."

## **2) Modern definition**

According to Simon Kuznets, “the net output of commodities and services flowing during the year from the country’s productive system in the hands of the ultimate consumers.”

### **Methods of Measuring National Income**

#### **1) Gross Domestic Method**

It is the sum total of the market price of all goods and services produced in a financial year.

Method to measure GDP?

##### **(i) Product method**

In it, the value of all goods and services produced in a nation over a period of time is added.

Another name of this method is a value-added method.

##### **(ii) Income method**

GDP by income method is the sum of salary and wages, rent, interest, and profit.

##### **(iii) Expenditure method**

It includes expenditure on all items, it includes services, investment, goods, and import-export.

#### **2) GDP at factor cost.**

It is the sum total of net value added by all producers in Nation.

$\text{GDP at factor cost} = \text{net value added} + \text{depreciation}$

#### **3) Net domestic product (NDP)**

It is the total of the net output of the economy during the financial year.

$\text{NDP} = \text{GDP at factor cost} - \text{depreciation}$

#### **4) Nominal and real GDP**

Nominal GDP is measured GDP on the basis of current market price.

If GDP is calculated on the basis of fixed market price over a period of time.

## **5) GDP Deflator**

It is an index of price changes in goods and services, it includes GDP.

## **6) Gross national product**

It is the total of the flow of all goods and services at market value produced during a year in a country, it includes net income of abroad.

## **What Is Disposable Income?**

- Disposable income is the total amount of money that households used to spend on goods and services and saving after paying income taxes.
- It is also known as a Disposable personal income.
- It is an important indicator to measure the overall economy.
- It is a net amount of a household or an individual available to spend on needs, to invest, save after paying income taxes.

**Disposable income= Personal income - personal income tax payment**

## **National Income Vs Disposable Income**

Basis	National income	Disposable income
Meaning	National income is the total value of the total output of a country, it includes all goods and services produced in one year.	Disposable income is the amount available to a household for spending, investing, and saving after paying income tax.
Measurement tools	Input method, Output method, income method.	Income- tax payment
Effect of tax	It doesn't consider tax.	It is calculated considering tax.