

# Questions & Answers based on National Income

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**Q.1. Define National Income and also explain its importance in a planned economy.**

**Ans. MEANING AND DEFINITION OF NATIONAL INCOME**

National Income can be defined as the money value of the flow of goods and services during a given period of time. It is the income received by all the people of a country in the form of wages, rent, interest and profits. In other words, the total amount of income accruing to a country from economic activities in a given period is called national income.”

National Income has been defined in different ways by different economists.

According to **Prof. A. C. Pigou**, “The National dividend is that part of the objective income of the community including, of course, income derived from abroad, which can be measured in money.”

According to **Central Statistical Organisation**, “National Income is the sum of factor income earned by the national residents of a country in form of wages, rent, interest and profit in an accounting year.”

Thus, National Income is the final outcome of all economic activities of a nation.

**Q.2. What precautions should be taken while estimating national income by Value Added/Product/Output method?**

**Ans. Precautions to be taken while measuring national income by Product Method are:**

- (i) Sale and purchase of second hand goods should not be included as the secondhand goods purchased/sold in current year have already been counted in the year in which they were produced. However, commission earning, if any, of brokers involved with such goods, should be included.
- (ii) Only the value of final goods should be counted while calculating national income. The value of intermediate goods should be ignored. This is important so as to avoid double counting.
- (iii) The value of goods produced for self consumption should be included.
- (iv) Imputed value of owner occupied houses should be part of National Income.
- (v) National Income should also include own account production of fixed assets by the households/government.
- (vi) Domestic services and voluntary work done are to be excluded. However an exception is made in case of domestic services produced by paid employees

### **Q.3. What precautions should be taken while calculating national income by Expenditure Method?**

**Ans. Precautions to be taken while calculating national income by Expenditure Method are:**

- (i) Only expenditure on final goods and services should be considered to avoid double counting.
- (ii) Intermediate expenditure should not be taken.
- (iii) Expenditure on second hand goods should be ignored as they have already been counted for when they were originally produced/purchased.
- (iv) Expenditure on purchase of new/old shares, debentures etc. should not be included as they are simply paper claims and no production is involved.
- (v) Government expenditure on transfer payments is not to be included.
- (vi) Gross investment is part of total expenditure.

#### **Q.4. What precautions should be taken while calculating national income by Income Method?**

**Ans. The precautions to be taken while calculating national income by Income Method are:**

- (i) Transfer payments such as scholarships, old age pension etc. should not be included as they are not associated with any movement of goods/services at all. Retirement pension however is an exception because it is the payment by employers in lieu of employee's services received earlier.
- (ii) Any illegal incomes like those from smuggling, black marketing etc. are obviously excluded.
- (iii) Indirect taxes raise the market price of goods, thus they should be included while calculating national income at market price.
- (iv) Money received from sale of shares, bonds etc. should not be included because there is no corresponding flow of goods/services.
- (v) Windfall gains like winning from lotteries etc. should not be included as these are unearned incomes.
- (vi) Production for self consumption should be included in national income.
- (vii) Imputed rent of owner occupied houses should be included.
- (viii) Death duties, gift tax, wealth tax etc. being paid out of past savings should not be included.

## Q.5. WHAT IS THE SIGNIFICANCE OF NATIONAL INCOME?

(1) **Indicator of Economic Development** : The econ development can be assessed by its national income. An increas national income is a symptom of growing economic progre decreasing national income, on the contrary is a sympto. economic deterioration in the country concerned.

(2) **Base of Economic Planning** : A country cannot fi plan without having National Income data. In India the planning commission keeps the National Income data to prepare the Five Year Plans of the country. Without these, planning is not possible. For economic planning the data pertaining to a country's output, expenditure, income, investment, taxation etc. will be taken as basis.

(3) **Helpful in Comparative Analysis** : By comparing national income estimates of different countries, we can compare their standards of living and the levels of economic welfare achieved by them.

(4) **Helpful in Formulating Economic Policies** : National Income is used as an important tool for economic analysis and policy. These figures enable the Government to estimate the economic activity i.e., in which direction the industrial output, investment and savings are changing. On the basis of such estimates the Government lays down future economic policy for development.

**(5) Information about the Distribution of Income :** The national income estimates also show how the national income of a country is distributed among the various sections of the population. An increase in the share of labour (i.e., wages) out of the national income is a clear indication that the economic inequalities are lessening in the country concerned.

**(6) Provide Clear Picture of Economy :** National Income data enable us to understand the relative importance of the various sectors in the economy. It also indicates the structure of the economy and also throw light on the level of economic welfare in society, while saving and investment determine the economic growth of a country.

volume of consumption, saving and investment in the economy. The level of consumption shows the

## **Q.6.WHAT ARE THE CAUSES OF SLOW GROWTH RATE OF NATIONAL INCOME IN INDIA ?**

The factors responsible for the slow growth of national income are as follows:

**(1) Lack of Capital :** In India there is lack of capital. Due to lack of capital, the level of investment in the economy is very low which results in low level of production and employment. This create obstacle in industrial growth and results consequently in low per capita income and national income.

**(2) Rapid Increase in Population :** Population of India is growing rapidly and moreover employment opportunities are decreasing. This is a major reason for decrease in per capita and national income.

**(3) Low Productivity:** In India traditional methods are used for production which results in low level of productivity. Due to this, there is slow growth in national and per capita income.

**(4) Lack of Entrepreneurship :** In India majority of people do not want to take risk and henceforth are not able to start new ventures. Consequently production does not increase and results in slow growth of per capita and national income.

**(5) Lack of Infra-structure :** Basic amenities such as electricity, banking, transportation, communication etc. are not frequently available in India. Due to lack of basic amenities production remains at lower level resulting in low per capita income.



**(6) Lack of Financial Institutions:** In India, there is lack of financial institutions and this way economic development has been adversely affected because adequate funds are not available for development on reasonable terms.

**(7) Poor Industrial Development:** In India, there is lack of modern basic industries. Due to poor industrial development, all people of the country do not get employment which results in low per capita and national income.

**(8) Unfavourable Social Structure :** In India, the present social structure is a hindrance in the economic development. Caste system, joint family system, inequalities of wealth and income are major hindrance in the utilization of available resources. It adversely affects the efficiency and mobility of labour.

**(9) Fatalism :** Indian people to a great extent believes in fate and fortune. They do not get incentive to work hard. It reduces labour efficiency and due to it the level of production remains low.

THANK YOU