Smart, Structured & Syllabus-Aligned Content

RICE EDUCATION

ECONOMY

WBCS

NATIONAL INCOME

(REFERENCE MATERIAL)

NATIONAL INCOME

1. Definition

National Income represents the total monetary value of all final goods and services produced by a country's residents within a specific period (typically one financial year). It measures the total **'earnings'** and productive capacity of a nation.

- It encompasses factor earnings in the form of w**ages, rent, interest, and profits, inclusive of net income earned from abroad.**
- It serves as an essential barometer of a nation's economic health, development, and overall performance.
- A rising national income generally correlates with expanded citizen access to goods, services, and socioeconomic opportunities.

2. Significance

Quantifying and tracking national income is indispensable for governance, economic planning, and academic evaluation across several dimensions:

- **Tracking Growth:** It establishes whether the economy is expanding or contracting relative to previous periods.
- **Policy Formulation:** Governments and fiscal authorities utilize these metrics to design taxation structures, allocate budgetary resources, and formulate public welfare schemes.
- **Evaluating Well-being:** It allows economists to compute per capita income (average income per citizen), offering insight into living standards.
- **Global Benchmarking:** International institutions—such as the World Bank, the International Monetary Fund (IMF), and the United Nations (UN) rely on national income data to evaluate global economic trends and formulate development frameworks.
- **Institutional Framework (India):** In India, national income estimation is systematically conducted by the **National Statistical Office (NSO)** operating under the **Ministry of Statistics and Programme Implementation (MoSPI).**

3. Domestic Income vs. National Income

Features	Domestic Income	National Income
Production	Measures factor incomes generated within the geographical/political borders of a country.	Measures factor incomes earned exclusively by the normal residents of a country.
Who Generates the Income?	Generated by both residents and non-residents operating inside the domestic territory	Generated by normal residents whether inside or outside the domestic territory.

Inclusion of Foreign Earnings	Does not include income earned by residents from abroad; includes income sent out by foreign nationals working domestically.	Includes net income earned by residents from abroad.
Formula	**Domestic Income + Net Factor Income from Abroad (NFIA) = National Income.**	**National Income - Net Factor Income from Abroad (NFIA) = Domestic Income.**

4. Components of National Income

National income accounts reflect how economic output is generated, spent, and circulated across sectors. The primary aggregate components include:

- **Consumption (C):** Total expenditures incurred by households on final goods and services for personal use.
- **Investment (I):** Capital formation denoting the creation of new assets that drive future production. This covers business spending on machinery, tools, industrial buildings, inventory accumulation, and residential housing.
- **Government Spending (G):** Expenditures by central, state, and local governments on public goods, services, government employee salaries, welfare programs, and subsidies.
- **Net Exports (X - M):** The net balance between exports (X) and imports (M). A trade surplus adds net demand to the national income pool, whereas a trade deficit reduces it.
- **Factor Income:** Earnings derived directly from factors of production (wages, rent, interest, and profits), feeding into National Income at Factor Cost after adjustments for indirect taxes and subsidies.

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PREVIOUS YEAR QUESTION

1.The difference between Gross Domestic Product and Net Domestic Product is (WBCS PRE 2024)

(A) Government Revenue

(B) Net Indirect Tax

(C) Depreciation

(D) Foreign Aid

2.Which of the following is not a problem of the unorganised sector?(WBCS PRE 2024)

(A) Low productivity

(B) High taxation

(C) Low technology

(D) Low wages

3.Which sector contributed the most to the real Gross Value Added at basic prices in the last decade? (WBCS PRE 2023)

(A) Public administration, defence and other services

(B) Financing, real estate and professional services

(C) Manufacturing, construction, electricity, gas and water supply

(D) Trade, hotels, transport and communication

4.The service sector of India generates more than (WBCS PRE 2017)

(A) 33% of GDP

(B) 40% of GDP

(C) 42% of GDP

(D) 50% of GDP

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