

THREE APPROACHES TO CALCULATE NATIONAL INCOME

THE INCOME APPROACH

This approach measures the income of individuals from employment and self-employment, the profits of firms and public corporation and rent on property. (Interest earnings will be included within the profits of companies or the income of individuals)

National Income:	Income of individuals + self-employment + profits of firms and public corporation + rent + interest (cannot include transfer payments such as scholarship, gambling, pension i.e. payment which is not directly worked for)
	Gross Domestic Product (GDP) at factor cost
	+ Net Income from abroad
	Gross National Product (GNP) at factor cost
	- Depreciation / Capital Consumption
	Net National Income



THE OUTPUT APPROACH

This approach measures the sales value of output produced by firms and other organisations in the period.

National Income:	Fishery + Forestry + Agriculture + Construction + Transportation + Manufacturing + Tourism + Water + Energy etc
	Gross Domestic Product (GDP) at market price
	+ subsidies – taxes
	Gross Domestic Product (GDP) at factor cost
	+ Net Income from abroad
	Gross National Product (GNP) at factor cost
	- Depreciation / Capital Consumption
	Net National Income

THE EXPENDITURE APPROACH

This approach calculates the national income by using the expenditure of individuals, private sector, government and foreigners

National Income:	Expenditure of individuals + Government + Private firms + Foreigners
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	Gross Domestic Product (GDP) at market price
	+ subsidies – taxes
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	Gross Domestic Product (GDP) at factor cost
	+ Net Income from abroad
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	Gross National Product (GNP) at factor cost
	- Depreciation / Capital Consumption
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	Net National Income
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Net National Income = Net National Output = Net National Expenditure

STANDARD OF LIVING

Standard of living = $Y_{\text{per capita}}$ = National Income \div Number of population

DIFFICULTIES OF COMPARING NATIONAL INCOME

Comparisons can be made *between space* (compare national income between two countries at the same period of time) and *between time* (compare national income of one country at two different periods of time).

+ Number of population	+ Value of currencies	+ Culture / Weather
+ Distribution of income	+ Working hours	+ Inflation
+ Composition of GNP	+ Consumption pattern	+ Technology level

Learning Outcomes:

Students should be able to:

- Examine the importance of national income
- Identify and practice different methods to measure national income

Main Reference

Case, K. E., & Fair, R. C. (2007). *Principles of Economics* (8th ed.). Prentice Hall, Chapter 19.

Other Reference

Sloman, J. (1999). *Essentials of Economics* (3rd ed.). Prentice Hall, Chapter 13.

Review Questions

1. What is the difference between gross national product (GNP) and gross domestic product (GDP)?
2. From the following figures, calculate:
 - a. Gross National Product at market price
 - b. Gross National Product at factor cost
 - c. National Income

	RM million
Expenditure on consumer goods and services by households	18 500
Current expenditure by public authorities	5 000
Expenditures on capital goods by firm and public authorities	5 000
Subsidies	500
Income from abroad	1 000
Indirect taxes	4 000
Income paid abroad	500
Goods and services exported	5 500
Goods and services imported	6 000
Depreciation	2 000