Measuring National income

- **Expenditure method**

C+I +G + X –M = GDP at market price

+/_ Net factor income = GDP at market price

(Minus) -Direct Taxes

(Minus) - Subsidies

= GDP at factor cost

(Minus) -Depreciation = NNP at factor cost (National income)

- **Output Method**

Value of output sold

Issues – double counting – final and intermediate goods.

- **Income method**

Issues

Benefits / income in kind

Transfer payment

Stock appreciation

How National Income stats are used

- Indicate alterations in standard of living – GNP

- Comparing
- Help government to formulate economic policy
- Show distribution of income

GNI

GNI less the effects of the profits of re-domiciled companies and the intellectual property products and aircraft leasing companies
Introduced to exclude globalisation effects that are disproportionally impacting the measurement of the size of

Economic Growth: An increase in real GDP over a period of time

National Income: Is the income accruing to the permanent residents of a country as a result of engaging in current economic activity.

GDP: measures the total income generated from economic productive activity within the state regardless by whom (Irelands wealthy)

GNP: Is the total value of all goods and services produced in an economy in a given time period which accrues to the residents of a country.

Net Factor Income: difference between factor income earned abroad (rent, profits, wages) by Irish and sent home.

GNP: better standard of living.

GNP less than GDP

Because income sent out of Ireland / Profits – usually larger than that sent home.

1. Repatriations
2. Remittances
3. Repayment on the foreign element of our national debt.

GNI:

Total money earned by nations people and businesses

Track a nation's wealth from year to year

Nations gross domestic product and income from abroad.

Problems with overstating GDP figures

- EU contributions / donations would have to contribute more
- Debt to GDP ratio – pressure to tighten policies

Limitation of stats:

- Population distortion – e.g. GDP increase by 50%, population increases by 100% - standard of living has fallen.
- Inflation- automatically increases GNP figures – use GDP and constant price
- Level of taxation
- Distribution of DGP

International Comparisons

- Foreign currency conversions – value of currency
- Back economy – e.g. if vibrant

- GNP
- Population difference
- Length of working week
- LDC
- Income distribution

Hidden Economy

- Describes all economic activity that goes unrecorded n the national income accounts.

Economic affects

- Less tax revenue
- Increase in expenditure – government
- Pressure on government services and finances
- Decline in legitimate activity

Social effects

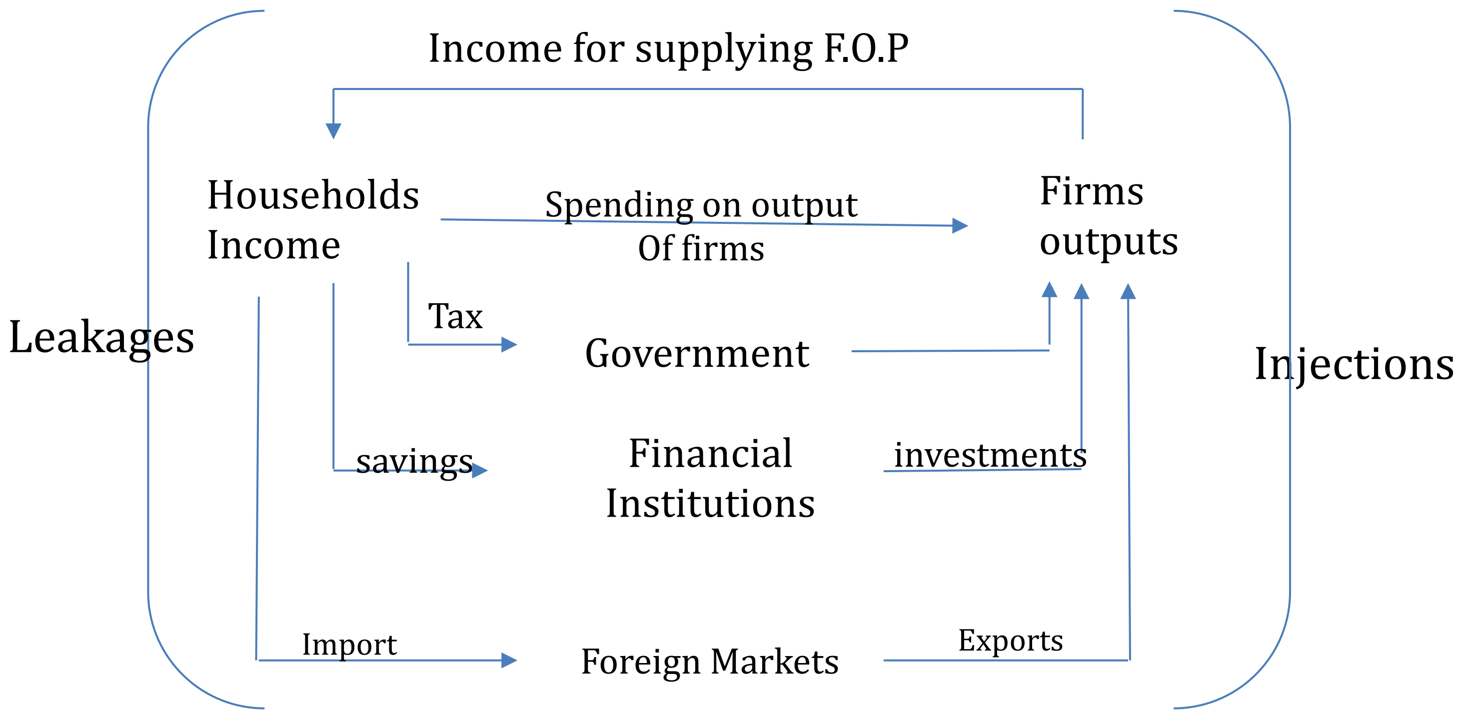
- Crime
- Vicious cycle/ circle
- Leads to poor social environment
- Public outrage
- Decrease in the provision of public gods and services

How to discourage

- Reduce direct tax
- Reduce indirect tax
- Better enforcement by revenue commissioner
- Simplify tax system

Circular flow of income

The flow of receipts and expenditure between companies and households.



What does consumption depend on?

- Level of income: the more money you have the more you spend
- Availability of credit

- Rate of Interest: if rates are low consumers may borrow and spend more
- Rate of income taxation: If PAYE income increased, disposable income that people have fall and consumers have less money to spend on goods.

Investment:

- Cost of capital goods – As interest rates rise, borrowing becomes more expensive and investment tends to fall.
- Business people's expectations – optimistic about future – investments may increase
- Government expenditure
- State of technology

Constant vs Current Prices

- Draw any changes in prices of goods produced i.e. inflation
- Take a base years' prices and compare production levels in different years to the same price levels.
- Erasing any changes in national income being due to inflation/ deflation.

National Income:

- MCP: each additional unit income which is spent
- MPM: Proportion of each additional unit of income created by injection
- MPS: Proportion of each additional unit f income which is saved.

The Multiplier

- Shows the precise relationship between an initial injection and the eventual increase in national income resulting from the injection.

MPT: Percentage of tax paid out of the last increase I income.

Trade Cycles

Recovery

- Starts in a position of high unemployment with low prices and output.
- Increase in investment with the multiplier effect leading to increased income and demands
- Increased demand leads to further increase in investment capital
- Increased economic activity and recovery.

Boom

- Demand rises, level of employment rises
- Leads to a fall in inflation and price increases.

Recession

- GDP falls consecutively over two quarters
- Boom ends when output is at full capacity and investment begins to decline
- Decreased investment leads to fall in consumption

Depression

- Deeper fall off
- GDP decline of more than 10%

GROSS: before deduction

DOMESTIC: Home produced

PRODUCT: the amount produced

NATIONAL: focused on Irish residents

MARKET PRICE: prices consumers pay for goods and services

FACTOR COSTS: Return for FOP

Gross domestic product at factor cost / market price

Total output produced by the FOP in the domestic economy

Measured by payments to factors of production.

Gross National product at factor cost / market prices

The total output produced by Irish owned FOP in Ireland and elsewhere.

Measure of income accruing to a countries residents.