Measuring national income

To measure how much output, spending and income has been generated we use national income accounts. These accounts measure the:

1. Total value of the output of goods and services produced in the Pakistan
2. Total amount of expenditure taking place in the economy
3. Total amount of income generated through production of goods and services

National Income is a term used to measure the monetary value of the flow of output of goods and services produced within the economy over a period of time. Measuring the level and rate of growth of national income (Y) is important to economists when they are considering:

The rate of economic growth and where the economy is in the business cycle

Changes to overall living standards of the population

Looking at the distribution of national income (i.e. measuring income and wealth inequalities)

Gross Domestic Product (GDP)

GDP measures the value of output produced within the domestic boundaries of the PAKISTAN. It includes the output of the many foreign owned firms that are located in the PAKISTAN

There are three ways of calculating GDP - all of which should sum to the same amount since by identity:

National Output = National Expenditure (Aggregate Demand) = National Income

Under the new definitions introduced in 1998, GDP is now known as Gross Valued Added.

i) The Expenditure Method (Aggregate Demand)

This is the sum of the final expenditure on PAKISTAN produced goods and services measured at current market prices. The full equation for GDP using this approach is

$GDP = C + I + G + (X-M)$

C: Household spending (consumption)
I: Capital Investment spending
G: General Government spending
X: Exports of Goods and Services
M: Imports of Goods and Services

ii) The Income Method (Sum of Factor Incomes)
Here GDP is the sum of the final incomes earned through the production of goods and services.

Main Factor Incomes
Income from employment and self-employment
Added to Profits of companies
Added to Rent income
= Gross Domestic product (by factor income)

Only factor incomes generated through the production of output are included in the calculation of GDP by the income approach. Therefore, we exclude from the accounts the following items:

Transfer payments (e.g. the state pension, income support and the Jobseekers' Allowance)

Private Transfers of money from one individual to another

Income that is not registered with the Inland Revenue (note here the effects of the Black or shadow economy where goods and services are exchanged but the value of these transactions is hidden from the authorities and therefore does not show up in the official statistics!)

iii) The Output Method
This measures the value of output produced by each of the productive sectors in the economy using the concept of value added. Value added is the increase in the value of a product at each successive stage of the production process. We use this approach to avoid the problems of double-counting the value of intermediate inputs. The main sectors of the economy are the service industries, manufacturing and construction, and extractive industries such as mining, oil together with agriculture

The Difference between GDP and GNP
Gross National Product (GNP) measures the final value of output or expenditure by PAKISTAN owned factors of production whether they are located in the PAKISTAN or overseas. GDP is only concerned with incomes generated within the geographical boundaries of the country. So output produced by Nissan in the PAKISTAN counts towards our GDP but some of the profits made by Nissan here are sent back to Japan - adding to their GNP.

GNP = GDP + Net property income from abroad (NPIA)

NPIA is the net balance of interest, profits and dividends (IPD) coming into the PAKISTAN from PAKISTAN assets owned overseas matched against the flow of profits and other income from foreign owned assets located within the PAKISTAN.