

1. THE IMPORTANCE OF THE NATIONAL INCOME TO THE ECONOMY.

National income is the total value a country's final output of all new goods and services produced in one year. Alternatively **National income**, in the words of *Pigou*, "is that part of the objective income of the community, including of course income derived from abroad, which can be measured in money."

Raising national income is the important goal of all economic activity. Economic welfare of a country depends upon what goods and services are available for the consumption of its individuals. The changes in national income statistics show how the economy is developing and enables the government to lay down the appropriate economic policy necessary under the circumstances.

The study of Economics centres mainly round the concept of national income, i.e., what determines the level of national income, what causes fluctuations in it and what influences the rate of its growth. With the help of national income statistics it is possible to chart cyclical movements, find out the level of inflation, measure economic growth and development and evaluate and compare a countries standards of living with other countries.

The following are some uses of national income:

- National income estimate reveals the overall production performance of the economy. It measure the level of production in the year. Per capita income helps in finding out the standard of living of people in a particular county in a particular year. Economic welfare depends to a considerable degree on the level of national income and the average standard of living of the people. Thus, the figures of national income and per capita income indicate the level of economic welfare of the people of a country.
- Comparing national income estimates over a period of time, we can know whether the economy is growing, stagnant or declining. In case the economy is growing, we can also judge the rate of economic growth or development by measuring the rate of increase in national income. Further, by comparing the per capita income over years, we can know the changes in the standards of living and economic welfare of the people.
- It also helps to show the contribution made by the various sectors of the economy, such as agriculture manufacturing industry, trade, etc., to the national income.
- National income estimates throw light on the distribution of national income among different categories of income, such as wages, profits, rents, and interest. Distribution of national income between wages on the one hand and profits, interest, rent on the other, is of special significance, since inequality in personal incomes depends to a large extent on the share of working classes and the share of property owners.
- The national income statistics help in providing Information regarding consumption saving and investment for any economic study concerning economic growth and planning. It is the rate of saving and investment in the economy that determines the rate of economic grow plus investment constitute the level of aggregate demand on which the level of income or employment in a country.
- With the National income estimates of various countries of the world, we can compare the standards of living and the levels of the people living in those countries.