

*University of Mujahid Abdelhafid Boussouf – Mila*

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*Lectures On : English economic terminology*

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# **National income and GDP**

## **Introduction**

National income and Gross Domestic Product (GDP) are key indicators used to measure the economic performance of a country. They reflect the total value of goods and services produced within an economy and the income earned by its residents over a certain period, usually a year.

## **1. National Income (NI)**

National Income (NI) is a key indicator of a country's economic performance. It represents the **total income earned by the residents of a country** from all economic activities over a specific period, usually one year. NI helps economists, policymakers, and researchers understand the **standard of living**, economic growth, and the distribution of income within a country.

### **1.1. Definition of National Income**

National Income can be defined as: The total money value of all final goods and services produced by the factors of production owned by the residents of a country during a year.

In simpler terms, it is the **aggregate of all incomes earned by individuals and businesses**, including wages, rent, interest, and profits.

### **1.2. Components of National Income**

National Income is composed of the following main sources of income:

1. **Wages and Salaries (Labor Income):** Payments to employees for their work.
2. **Rent (Land Income):** Income earned from land or natural resources.
3. **Interest (Capital Income):** Earnings from investments or loans.
4. **Profits (Entrepreneurial Income):** Income received by business owners and entrepreneurs.

Other adjustments may include **net factor income from abroad**, which accounts for income earned by residents abroad minus income sent abroad.

### **1.3. Methods of Measuring National Income**

National Income can be calculated using three main approaches:

#### **1. Income Method:**

$NI = \text{Wages} + \text{Rent} + \text{Interest} + \text{Profits} + \text{Net Factor Income from Abroad}$

#### **2. Expenditure Method:**

$NI = C + I + G + (X - M) - \text{Depreciation}$

Where:

- C = Consumption
- I = Investment
- G = Government Spending
- X = Exports
- M = Imports

### 3. Production / Value-Added Method:

Sum of **value added** at each stage of production across all sectors of the economy.

#### 1.4. Importance of National Income

- ✓ **Economic Planning:** Helps governments design fiscal and monetary policies.
- ✓ **Measure Standard of Living:** Higher NI usually indicates higher living standards.
- ✓ **Income Distribution Analysis:** Identifies inequalities in the economy.
- ✓ **Assess Economic Growth:** NI trends over time show whether the economy is expanding or contracting.

#### 1.5. Relationship with GDP:

- ✓ GDP measures total production within the country.
- ✓ National income measures the total income received by residents, including income earned abroad and excluding income sent abroad.

#### Formulas:

NI = GDP + Net Factor Income from Abroad – Depreciation – Indirect Taxes + Subsidies

## 2. Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is one of the most important indicators of a country's economic performance. It measures the total monetary value of all final goods and services produced within a country's borders during a specific period, usually one year. GDP helps economists, policymakers, and analysts evaluate economic growth, living standards, and productivity

### 2.1. Definition of GDP

Gross Domestic Product (GDP) can be defined as: The total value of all final goods and services produced within the geographical boundaries of a country in a given period.

This definition shows the following:

- ✓ GDP includes all production within the country, regardless of who owns the resources.
- ✓ It only counts final goods and services, avoiding double counting.
- ✓ GDP is measured in monetary terms to allow aggregation of different products.

### 2.2. Components of GDP:

GDP can be calculated using three approaches:

#### 1. Expenditure Approach:

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

Where:

- C = Consumption by households
- I = Investment by firms
- G = Government spending
- X = Exports
- M = Imports

#### 2. Income Approach:

$$GDP = \text{Wages} + \text{Rent} + \text{Interest} + \text{Profits}$$

### 3. Production Approach (Value-Added Approach):

GDP = Sum of the value added at each stage of production.

#### 2.3. Types of GDP

There are several types of Gross Domestic Product (GDP) including:

- ✓ **Nominal GDP:** Measured at current market prices, without adjusting for inflation.
- ✓ **Real GDP:** Adjusted for inflation, reflects the actual growth in production.
- ✓ **GDP per Capita:** GDP divided by the total population, used to compare living standards between countries.

#### 2.4. Importance of GDP

- ✓ **Measure Economic Performance:** Tracks growth or recession in the economy.
- ✓ **Policy Making:** Helps governments and central banks design fiscal and monetary policies.
- ✓ **International Comparison:** Allows comparison of economic performance across countries.
- ✓ **Resource Allocation:** Identifies which sectors contribute most to economic output.

GDP is a fundamental measure of a country's economic activity. It reflects the total production of goods and services within a country and is crucial for evaluating economic growth, planning, and policy-making. However, it should be used alongside other indicators to assess the overall welfare and well-being of a nation

### 3. Difference Between GDP and National Income (NI)

The difference between Gross Domestic Product (GDP) and National Income (NI) is an important concept in macroeconomics. It mainly relates to what is measured and how income from abroad is treated. The table below illustrates this difference:

**Table 1: Key differences between Gross Domestic Product (GDP) and National Income (NI)**

Aspect	GDP	National Income (NI)
<b>Definition</b>	Total value of goods and services produced within the country	Total income earned by residents of a country
<b>Scope</b>	Domestic production	Residents' income (domestic + abroad)
<b>Includes</b>	All production within borders	Wages, rent, interest, profits of residents
<b>Excludes</b>	Income from abroad	Depreciation and indirect taxes

National Income can be derived from GDP by adjusting for Net Factor Income from Abroad (NFIA):

$$NI = GDP + \text{Net Factor Income from Abroad} - \text{Depreciation} - \text{Indirect Taxes} + \text{Subsidies}$$

In summary, GDP and National Income are essential tools for understanding a country's economic health. While GDP focuses on production, National Income focuses on income received by residents, providing a complete picture of economic activity.

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