

From GNP to national income

The final complication is depreciation.

Depreciation is a flow concept telling us how much our effective capital stock is being used up in each time period. Depreciation is an economic cost because it measures resources being used up in the production process.

Our simple example in Table 19.4 ignored depreciation completely. The machine bought by the car maker lasted for ever. We now recognize that machinery wears out. In consequence, the *net* output of the economy is lower. The part of the economy's gross output used merely to replace existing capital is not available for consumption, investment in net additions to the capital stock, government spending or exports.

Similarly, we need to reduce our measure of the incomes available for spending on these goods. Thus, we subtract depreciation from GNP to get net national product (NNP) or national income.

National income measures how much the economy can spend or save, after setting aside enough resources to maintain the capital stock intact by offsetting depreciation.

We have now developed a complete set of national accounts. Figure 19.5 may keep you straight.

Depreciation or capital consumption is the rate at which the value of the existing capital stock declines per period as a result of usage or obsolescence.

National income is the economy's net national product. It is calculated by subtracting depreciation from GNP at basic prices.

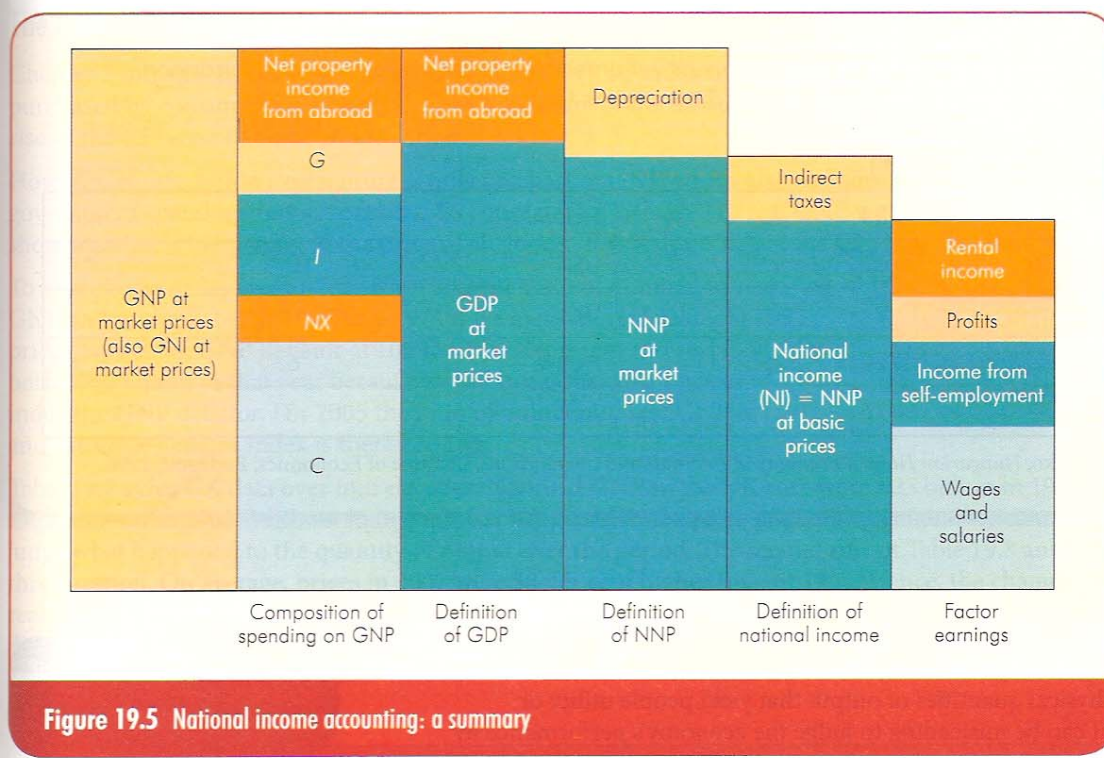


Table 19.5 UK national accounts, 2005 (£bn, current prices)

Expenditure measure		Income measure	
At market prices:		Income source: employment	
C by households	759	Profits and rents	274
C by government and non-profit organizations	301	Other	113
I by private firms and government	210	GDP at basic prices	1072
NX	-45	Indirect taxes	153
GDP at market prices	1225	GDP at market prices	1225
Net property income from abroad	63		
GNP (GNI) at market prices	1288		

Sources: ONS, UK National Accounts; OECD, Economic Outlook.