

# National Income Accounting

National income accounting refers to the set of rules and principles used to keep track of the economic activity of sovereign nations. National income accounting provides a framework for conceptualizing and studying a nation's economic activity that is reminiscent of the double-entry bookkeeping system utilized by business enterprises.

One of the main conclusions of national income accounting is this. All the goods and services produced by a sovereign nation over time (known as gross national product [GNP]) can be tallied either on the expenditure side (what was spent) or on the income side (what was received).

From the expenditure side of the accounts, gross national product (GNP) can be obtained by adding up all spending on goods and services. The basic accounting equation utilized is as follows:

$$GNP = C + I_g + G + (X - M)$$

*GNP = Gross National Product*

*C = Consumption*

*I<sub>g</sub> = Investment (gross)*

*G = Government spending*

*(X - M) = Exports minus imports*

GNP can also be obtained from the income side. We should be able to calculate an identical estimate of GNP by adding up the values of income earned by each of the four basic productive factors (labor, land, capital, entrepreneurial talent). The basic accounting equation utilized is as follows:

$$GNP = L_{Labor} + L_{Land} + C + E$$

*GNP = Gross National Product*

*L<sub>Labor</sub> = Compensation of employees*

*L<sub>Land</sub> = Rental income*

*C = Net interest*

*E = Proprietor's income & corporate profits*