**NATIONAL INCOME**

1. – Collection of data of the national income may be inaccurate.

* Changes in per capita income may be due to change in the value of money.
* Income may be in the hands of only a few.
* The products produces may not satisfy immediate wants of the people.
* Increased national income may mean less sleep and more worries.

2. -Savings

-Investments

-Foreign trade

-Taxation (government interference)

3. - Individual talents and personal endowment

- Inheritance from parents

4. - Differences in natural resource endowment

- Difference in stock capital equipment

- Differences in entrepreneurial cultures in the two countries

- Differences in stock of man power

- Differences in general attitude of people towards work

- Availability and states of technology

5. - Income approach

- Output approach

- Expenditure approach

6. - Problem of inaccurate data

- Price fluctuations make it difficult to calculate national income

- Problem of handling illegal and unrecorded yield income to recipients

- Transfer payments pose a problem

- Income disclosures aren’t true because people and firms like evading tax

7. i) Problems of valuation due to unavailability/inaccuracy of output figure especially in the

private section

ii) Problem of deciding on the goods/services to include eg. Whether the output of a house wife

should be included or not

iii) The problem of valuing output in the subsistence sector

iv)Problem of frequent changing process

v) Problem of valuing government output since many of its services are not sold in the market

vi) Problems of differentiating primary inputs from intermediate inputs

vii) Valuing illegal activities like drug trafficking.

8. - It shows average standards of living of the people

* It determines the economic development of a country
* It shows the country’s network or actual income
* It is used for economic planning
* Helps to know the contribution of different sectors of the economy
* Used to compare economic performance of different countries
* Used to compare economic performance of a country over the years

9. - When the national income is equitably distributed among the people

-When statistics obtained consider price changes in the economy

-When population size of the country is real and not more projections

-When statistics of output is based essential commodities consumed by the messes/large number of people

**NATIONAL INCOME**

***1. Uses of national income statistics to an economy;***

1. Use to measure rate of economic growth of a country. When output figures are high it means productivity has improved.
2. Helps the government to plan its economy since it provides useful information required by planners.
3. Used to compare the standards of living of people in a country. By comparing the per capita figures.
4. Help the country to know the size and contribution of various sectors to natural income hence can take appropriate measures to improve them.
5. Shows the progress of the of the economy over a given period by comparing national income statistics over given period.

***2. Factors that contribute to this disparity in income distribution***

* Disparity in natural resources endowment
* Inheritance
* Corruption
* Disparity in access to education
* Differences in individual and personal talents
* Nepotism is rampantly used in security good job opportunity
* People get wealth through illegal means /robbery

***3. Five limitations of using per capita income as a measure of the standard of living in a***

***country ;***

* Inaccurate national income data-if the rational income statistics are in accurate then the per capita income will also be wrong
* inaccurate population data-if the population data is understated or overstated, then the per capita income will be relatively high or low respectively
* In equitability in income distribution-although the per capita income figure might appear to be high, the income could be in the hands of a few people
* Changes in the value of money over time-although the per capita income might appear to be high, the rate of inflation could also be very high
* Inappropriate application of national income. The per capita income might appear to be high but most of the income might have been used in away that did not benefit the public
* Effect on peoples health-high per capita income in a country could have been achieved at the expense of peoples health
* Effect of leisure-high per capita income could have been achieved at the expense of leisure
* Non marketed output-the per capita income might appear to be low but there could be a lot of output in the subsistence sector that has not been accounted for
* The per capita income may not account for the negative impact on the environment when that income was being generate

***4. Five problems that are encountered in measuring National income in your country***

* Determining what to include and what not to include e.g. illegal activities/non marketed production activities to be included
* How is subsistence production and non-marketed production activities to be valued
* Inadequate/inaccurate data as all production activities may be valued
* Lack of qualified personnel to collect and compile data
* Lack of adequate resources to finance the gathering of relevant information
* Danger of double counting where there are transfer payment e.g. students, grants, pension, where the value of intermediate goods are involved
* Problem using market price where indirect taxes and subsidies have to be taken care of
* Appreciation in the value of assets over the years
* Problem of estimating depreciation when calculation met national income.

***5. (a) Limitations of using per capita income t compare standards of living for people in different***

***countries (1mk naming , otherwise 2mks)***

* Inequality in income distribution – Per capita income in one country may be high but in the hands of every few people while another country may have lower per capita income but evenly distributed
* Inappropriate application of national income per capita income in one country may be high but used in a way that does not benefit citizens while in another country it may be used to finance project that benefit the masses directly
* Effects on peoples health
* High per capita income in one country could be achieved at the expense of people’s health and unconstructive working conditions.
* Different interpretations of national income one country may interpret per capita income as GDP while another country as NNP at factor product
* Non-marketed output - A country heavily relying on subsistence sector of un-marketed output compared with another.
* Price structure – This may be different in different countries e.g. food staffs may be cheaper in one country compared to another
* Use of different currencies – The values of different countries cannot be accurately through exchange rates/change in values of money
* - Different tastes, lifestyles and cultures in different countries
* Different in government expenditure from revenue collected in different countries
* Different levels and sizes of subsistence sector
* Inaccurate data collection used in the calculating of national income
* Different political system an ideologies which influence the outcome at national income

***6. Reasons as to why a high national income may not necessarily mean better welfare for the***

***citizens of a country***

* Uneven income distribution - Where too much of it is in the hands of few citizens and too little for many citizens
* Incorrect statistics – Incorrect statistics could have been used thus getting a wrong and exaggerated value of national income
* No leisure –High income might have been as a result of overworking labour force or even working under difficult circumstances
* The income might have been realized through activities that might have been detrimental to the environment or health of the workers
* Illegal activities – The income might be arising from illegal activities
* High inflation rate – The high income might have been consumed by high levels of inflation hence retarding the purchasing power of citizens

***5. a) i) GNP per capital of the economy***

GNP = C + G + 1 + X – M

624000 + 416000 + 300000 + 250000 – 210000

= Kshs. 1380000 Million

40 Million People

= Kshs.34000

***ii) Limitations of using GNP per calite in measuring the standard of living in a country***

* National income and wealth is never equally distributed among residents of a country
* Material welfare of people cannot be measured on mathematical scale in the same way as per capital GNP
* Wants and tastes of living people in a country are never exactly the same
* Prices of products in different parts of the country do vary leading to different costs of living
* The purchasing power of people is sometimes lowered through taxes and increased through subsidies
* Sometimes an increase in quality of output is achieved through a decrease in product quality
* Sometimes arise in production is realized through stressful, dangerous and unpleasant working conditions

***6.*** - Determining what to include and what not to indulge e.g. DO – IT YOURSELF SERVICES

and illegal activities. Are non- marketed production activities to be included

-How is subsistence production and other non- marked production activities may not be valued

- Inadequate and accurate date as well as all production activities may not be recorded

- Lack of qualified personnel to collect and compile data

- Lack of adequate resources to finance the gathering of relevant information

- Danger of double counting where there are transfer payments such as student’s grants and

pension or where the value of intermediate goods is involved

- Problem of using market prices where indirect taxes and subsidies have to be taken care of

- Appreciation in the value of assets over the years

- Problem of estimating depreciation when calculating Net National Income