

Nominal National Income & Real National Income

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National Income at Current Prices Or Nominal National Income

- The final goods and services produced in a year are valued at **current (or market) prices (prices prevailing in that particular year)**.
- Current prices means prices prevailing in the year in which goods and services are produced.
- Also called **Nominal National Income**
- It will change either when the price level changes or actual volume of goods and services changes or when both change

National Income at Constant Prices Or Real National Income

- Value of final goods and services is expressed in terms of **prices prevailing in a particular year called base year.**
- Also called **Real National Income**
- Prices remain constant for all years production, the value of national income at constant prices changes only when the volume of physical output changes during the year.

Table 1: Nominal and Real National Income

Items	2005-06		Value of Output (2005-06)	2007-08		Value of output at current prices (or Nominal National Income)	Real National Income
	Quantity	Prices (Rs.)	(Base Period)	Quantity	Price (Rs.)		
Wheat	2,000 kg	6 per kg	12,000	2,000	7	14,000	12,000
Pen	5,000	4 per pen	20,000	5,200	5	26,000	20,800
Cell Phones	100	1,000 per cell phone	1,00,000	110	1,100	1,21,000	1,10,000
			1,32,000			1,61,000	1,42,800

Conversion of Nominal Income into Real National Income

- Real National or National Income at constant prices

$$= \frac{\text{National Income at Current Price}}{\text{Current Price Index}} \times 100$$

- Example- If in 2008, national income is Rs 1000 crore, and in 2012 it is Rs 2000 crore at current prices. If price index rises from 100 to 250 during the same period, then real national income is,

$$\frac{2000}{250} \times 100 = \text{Rs. 800 crore}$$

Difference

Basis	National Income at Current Prices	National Income at Constant Prices
Cause of change	It is affected by changes in prices and change in physical output of goods and services	It is affected only by change in physical output
Index of growth	It is not a true indicator of economic growth of a country	It is a true indicator of economic progress
Comparison	It can not be compared with base year national income	It is comparable with the base year national income

Questions

- What is nominal national income ?
- What do you mean by real national income?
- Write the differences between nominal and real national income.

Thank You