

UNIT – 5

NATIONAL INCOME & BUSINESS CYCLE

NATIONAL INCOME:

Crucial indicators of economic activity:

1. **Economic Performance:** National income provides a snapshot of the country's economic performance. A growing national income is generally associated with economic expansion and increased production of goods and services.
2. **Standard of Living:** National income per capita, obtained by dividing the total national income by the population, is often used as an indicator of the average standard of living in a country. Higher national income per capita is generally associated with a higher standard of living.
3. **Employment:** A growing national income is often correlated with increased employment opportunities. As economic activity expands, businesses may hire more workers to meet the rising demand for goods and services.
4. **Government Revenue:** National income is crucial for governments as it directly influences tax revenue. Taxation is often based on income, and a higher national income provides the government with more resources to fund public services and infrastructure.
5. **Investment Climate:** Investors and businesses often use national income data to assess the economic climate of a country. A growing national income can be an indication of a healthy and expanding economy, making it an attractive destination for investment.
6. **Policy Formulation:** Governments and policymakers rely on national income data to formulate economic policies. Understanding the trends in national income helps policymakers identify areas that need attention, such as addressing economic downturns or managing inflation.
7. **International Comparisons:** National income allows for comparisons between different countries. It provides insights into the relative economic strengths and weaknesses of nations, helping policymakers and analysts make informed decisions.
8. **Economic Growth:** National income growth is a key component of overall economic growth. Sustainable economic growth, reflected in increasing national income, is essential for long-term prosperity.

Parameters that play a significant role in influencing economic activity:

1. **Interest Rates:** Central banks use interest rates as a tool to control the money supply and influence economic activity. Lower interest rates generally encourage borrowing and spending, stimulating economic activity, while higher rates can have the opposite effect.
2. **Government Fiscal Policy:** Government fiscal policies, including taxation and government spending, can impact economic activity. Tax cuts and increased government spending can boost demand, while tax hikes and spending cuts can have a contractionary effect.
3. **Consumer Confidence:** The level of confidence consumers have in the economy affects their spending habits. High consumer confidence typically leads to increased spending, which contributes to economic growth.
4. **Business Confidence:** Similarly, the confidence of businesses in the economic environment influences their investment decisions. High business confidence can lead to increased capital investment, job creation, and expansion.

5. **Inflation Rate:** Moderate inflation is generally considered healthy for an economy, as it encourages spending and investment. However, high or unpredictable inflation can erode purchasing power, affecting consumer and business decisions.
6. **Unemployment Rate:** The level of unemployment is a crucial indicator of economic health. Low unemployment often correlates with higher economic activity, as more people are employed and have income to spend.
7. **Global Economic Conditions:** International factors, such as global economic trends, trade agreements, and geopolitical events, can influence a country's economic activity. Changes in global demand for goods and services can impact exports and imports.
8. **Technological Advances:** Technological innovations can significantly impact economic activity by improving productivity, creating new industries, and changing the way businesses operate.
9. **Exchange Rates:** Exchange rates influence international trade and competitiveness. A weaker currency can boost exports but may lead to higher import costs, while a stronger currency can have the opposite effect.
10. **Government Regulations:** The regulatory environment can either encourage or hinder economic activity. Business-friendly regulations that provide stability and clarity can promote investment and growth.
11. **Infrastructure Development:** Adequate infrastructure, including transportation, communication, and energy systems, is essential for economic activity. Well-developed infrastructure can enhance productivity and attract investment.
12. **Demographic Factors:** Population growth, age distribution, and workforce skills are demographic factors that can impact economic activity. A growing and skilled workforce can contribute to economic expansion.
13. **Financial Market Conditions:** The conditions in financial markets, including the availability of credit and the performance of stock markets, can influence spending and investment decisions.
14. **Natural Disasters and External Shocks:** Unexpected events such as natural disasters, pandemics, or geopolitical crises can have significant short-term and long-term impacts on economic activity.