

Difference Between National Income and Disposable Income

www.differencebetween.com

Key Difference – National Income vs Disposable Income

National income and disposable income are two key economic measures used to measure the economic prosperity. The key difference between national income and disposable income is that **national income is the total value of the total output of a country including all goods and services produced in one year** whereas **disposable income is the amount of net income available to a household or an individual for spending, investing and saving purpose after income taxes are paid**. It is important to clearly distinguish between the two terms since they are widely different from each other.

What is National Income?

National income is referred to as the total value of the output of a country including all [goods and services](#) produced in one year. The economic value of a country is expressed in terms of national income and national expenditure, which is also identical to what is produced as national output. Below three methods are used to calculate the national income.

Income Method

This adds up all incomes received by the production of goods and services in the economy during a year. Wages and salaries from employment and self-employment, profits from companies, interest to lenders of capital and rents to landowners are included under this method.

Output Method

Output method combines the value of the total output produced in all sectors (primary, secondary and tertiary) of the economy, including agriculture, manufacturing and service industries. [Gross Domestic Product \(GDP\) and Gross National Product \(GNP\)](#) are key indicators used to measure economic performance of a country or region and to make international comparisons.

Gross Domestic Product (GDP)

Gross domestic product is the monetary value of all goods and services produced in a period (quarterly or yearly). In GDP, the output is measured as per geographical location of production

The below chart shows the largest GDPs of the world in 2016 by country or region (according to data of International monetary fund).

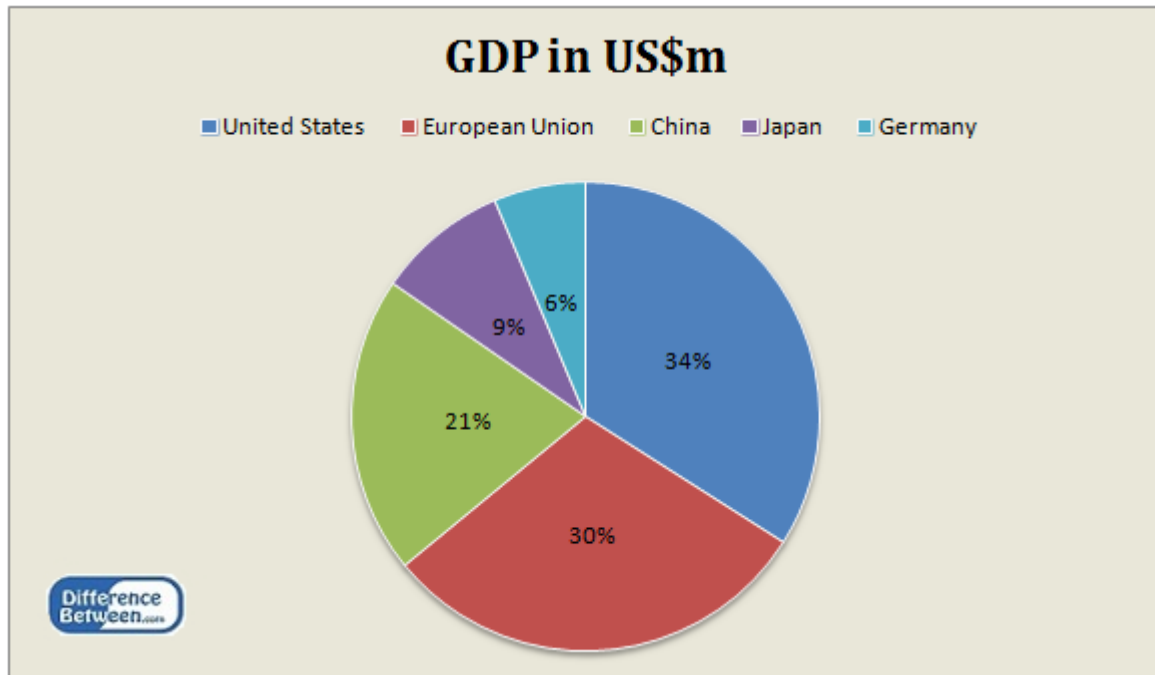


Figure 1: Highest GDPs in the world

Gross National Product (GNP)

Gross national product is the market value of all the products and services produced quarterly or yearly by the citizens of a country. Unlike GDP, GNP indicates allocated production based on the location of ownership.

Expenditure Method

Expenditure method aggregates all spending in the economy by households and firms to purchase goods and services.

What is Disposable Income?

Disposable income is referred to as the amount of [net income](#) available to an individual or a household for spending, investing and saving purpose

after income taxes are paid. It can be calculated by deducting [income taxes](#) from the income.

E.g. a household earns an income of \$350,000, and it pays tax at 30%. The disposable income of the household is \$245,000 (\$350,000 - (\$350,000* 30%)). This means that the household has \$245,000 for spending, investing and saving purpose.

Individuals and households consume necessities such as food, shelter, transportation, healthcare and leisure while also saving a portion of funds. They also undertake investing activities to earn returns.

The national income calculated in above ways does not take into account the effects of taxation. When the disposable income for all the individuals or households is aggregated, the national disposable income for a country or region can be calculated. Since this amount is an absolute measure, it cannot be used to compare disposable income among countries. For this reason, 'Disposable income per capita' is calculated for a country by adding the collective income of all individuals of the country less taxes and dividing the sum by the country's population.

Disposable income per capita = Total Disposable income/ Total population

The following diagram shows the disposable income per capita figures for the top five countries in 2016, according to the Organization for Economic Cooperation and Development (OECD).

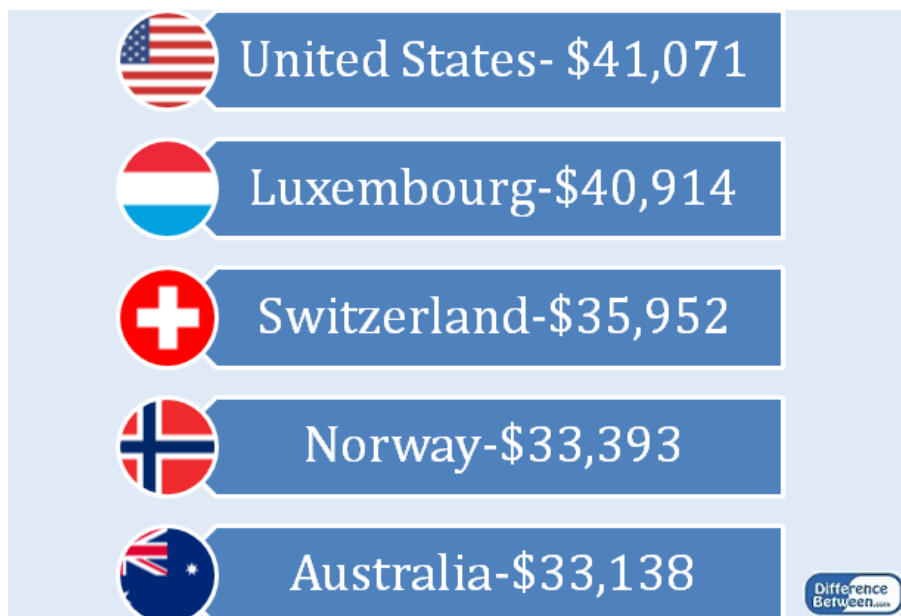


Figure 2: Highest disposable income per country

What is the difference between National Income and Disposable Income?

National Income vs Disposable Income	
National income is referred to as the total value of the total output of a country including all goods and services produced in one year.	Disposable income is referred to as the amount of net income available to a household or an individual for spending, investing and saving purpose after income taxes are paid.
Measurement	
National income can be measured by the income method, output method, and expenditure method.	Disposable income is measured by deducting the tax payment from earnings.
Taxation	
National income does not consider the effects of taxation.	Disposable income is arrived at after adjusting for taxation.

Summary - National Income vs Disposable Income

The difference between national income and disposable income is a distinct one where the total value of goods and services is measured through national income and the amount of net income available for individuals and households is measured by disposable income.

Nations are continuously attempting to increase or maintain national income and disposable income at a desired level since it is an important economic indicator. In a country where the national income is high, the disposable income also usually remains at a higher level.

Reference:

1. "Economics Online." National income. N.p., n.d. Web. [Available here](#). 31 May 2017.
 2. "List of countries by GDP (nominal)." Wikipedia. Wikimedia Foundation, 27 May 2017. Web. [Available here](#). 31 May 2017.
 3. "Disposable Income." Investopedia. N.p., 05 Nov. 2014. Web. [Available here](#). 31 May 2017.
- Sebastian, Andrew. "5 Countries With the Most Money Per Capita." Investopedia. N.p., 12 Sept. 2016. Web. [Available here](#). 31 May 2017.

How to Cite this Article?

APA: Difference Between National Income and Disposable Income. (2017, June 05). Retrieved (date), from <http://www.differencebetween.com/difference-between-national-income-and-vs-disposable-income>

MLA:"Difference Between National Income and Disposable Income." *Difference Between.Com*. 05 July 2017. Web.

Chicago: "Difference Between National Income and Disposable Income." *Difference Between.Com*. <http://www.differencebetween.com/difference-between-national-income-and-vs-disposable-income> (accessed [date]).



Copyright © 2010-2017 Difference Between. All rights reserved.