Vol 5 Issue 12 Sept 2016

ISSN No : 2249-894X

Monthly Multidisciplinary Research Journal

Review Of Research Journal

Welcome to Review Of Research

RNI MAHMUL/2011/38595 **ISSN No.2249-894X**

Review Of Research Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial Board readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

Regional Editor

Advisory Board

More.....

Address:-Ashok Yakkaldevi 258/34, Raviwar Peth, Solapur - 413 005 Maharashtra, India
Cell : 9595 359 435, Ph No: 02172372010 Email: ayisrj@yahoo.in Website: www.ror.isrj.org

ISSN: 2249-894X Impact Factor : 3.1402(UIF) Volume - 5 | Issue - 12 | September - 2016

Review Of Research

THEORATICAL VIEW:"SIMPLE INCOME DETERMINATION MODEL"

Prof. Dr. D.G.Patil
G.T.Patil College, Nandurbar.

ABSTRACT

The Process of income determination in an economy involves many forces, sectors, variables and stages. We will attempt a simplistic analysis here for understanding the process of income generation we try to determine the equilibrium level of income in the following way.

KEYWORDS: *income determination , economy involves , simplistic analysis , business sector.*

INTRODUCTION

In a two sector model comprising households and business sector, aggregate demand or expenditure (E) is made up of consumption expenditure (C) and investment expenditure (I)

E=Y=C+I

While investment expenditure is assume to be autonomous and constant consumption is considered as C=Co+BY (Co=autonomous consumption) ---I

The following value are assumed to be given

Co =150 Rs, b=0.5, I=100 Y= Means income thus

C=150+0.5Y

Y=C+I

Y=Co+by=I

Y=150+0.5Y+100

Y=0.5Y=250

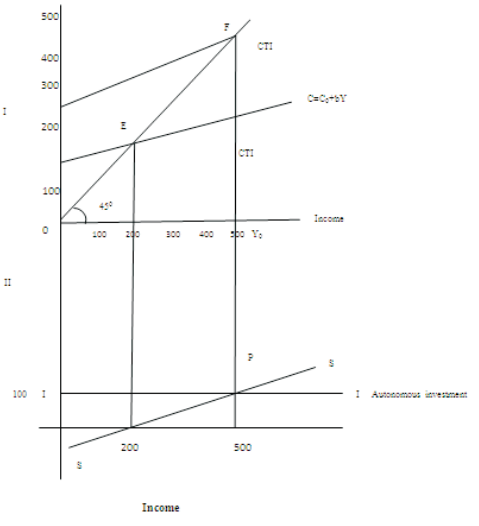
Y=500

So C=150+0.5×500=400

S=(Y-C)=100

C+S=500=C+I

At this level aggregate demand and aggregate supply are balance the equilibrium level of income is shown in big.



In the above figure the equilibrium income is 500Rs. S=100 and I=100 the equilibrium income will be distribute under two situation (a) if S#I (b) AD#AS

If the level of investment changes, Y will change this can be explained Keynesian investment multiplier:

$$K=\frac{\Delta Y}{\Delta I}$$

$$\Delta Y = K.\Delta I$$

Let us derive it:

Y=C+I

$$\Delta Y = \Delta C + \Delta I$$

$$\frac{\Delta y}{\Delta Y} = \frac{\Delta C}{\Delta Y} + \frac{\Delta I}{\Delta Y} \text{ ----------dividing by } \Delta y$$

$$1 = \frac{\Delta c}{\Delta y} + \frac{\Delta i}{\Delta y}$$

$$\frac{\Delta i}{\Delta y} = 1 - \frac{\Delta c}{\Delta y}$$

$$\frac{\Delta y}{\Delta i} = \frac{1}{1 - \frac{\Delta c}{\Delta y}} \text{ --------- } \frac{\Delta c}{\Delta y} = \text{MPC}$$

There are various types of multiplier relevant for income generation e.g balance budget multiplier (BBM), Foreign trade multiplier (FTM), employment multiplier, consumption goods multiplier, policy multiplier, investment multiplier, and so on. How ever let us now introduced the government sector its effect on income generation.

GOVERNMENT SECTOR:-

We can now take the case of a closed economy with the government sector we them have;
(Money put back) I+G=S+T (money taken out)

S= - a+s, yd
Yd= y-ty
T = Yt

{When s= saving, T =Tax, I= Investment, G= Govt expenditure, Yd= disposable income, t=tax proportion, a=constant, s= MPs}

BALANCE BUDGET MULTIPLIER:-

It says that an increase in govt expenditure matched by an equal amount of taxation will lead to an increase in income this is called haavelma effect

$$\text{BBM} = \frac{\text{Net increase in income}}{\text{Initial increase in govt expenditure}}$$

$$\frac{\Delta y}{\Delta G}$$

$$\text{BBM} \geq < 1$$

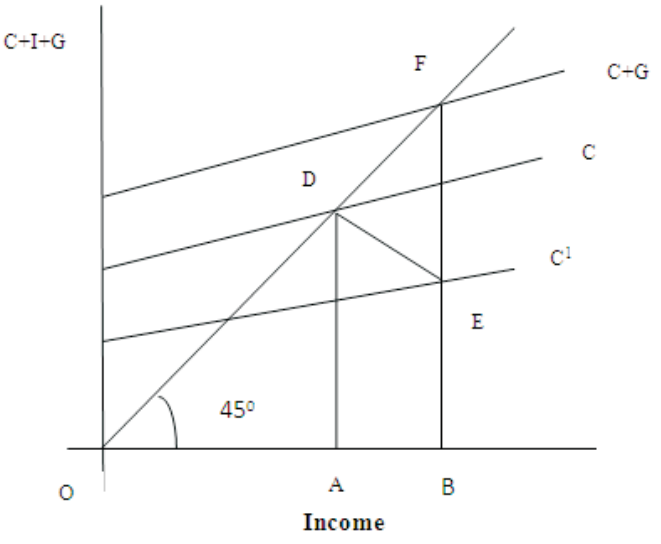
Now suppose $\Delta G = 100, MPS = \frac{4}{5}, S = 20$

If MPC= $^4/_5$ then K=S, if S=I then I=20

$\Delta Y = I \times K \quad 100 = S \times 20$

$\text{BBM} = \frac{100}{100} = 1$

Volume - 5 | Issue - 12 | September - 2016



In the above diagram C is consumption function before tax and C' is the same after tax, DE (Tax) = EF (govt. expenditure)

$$\text{Now AB } (\Delta Y) = DE\ (\Delta T) = EF\ (\Delta G)$$

$$\text{BBM} = \frac{\Delta Y}{\Delta G} = \frac{\Delta Y}{\Delta T} = 1$$

Open Economy:-

In the open economy the level of income is given by the following equation

Y= C+I+G+(X-M)
X= export M= import

If x generate than m, y will increase and it will have same multiplier effect which can be described with the help of foreign trade multiplier (FTM)

$$\text{FTM} = \frac{final\ increase\ in\ income\ (y)}{intial\ increase\ in\ export}$$

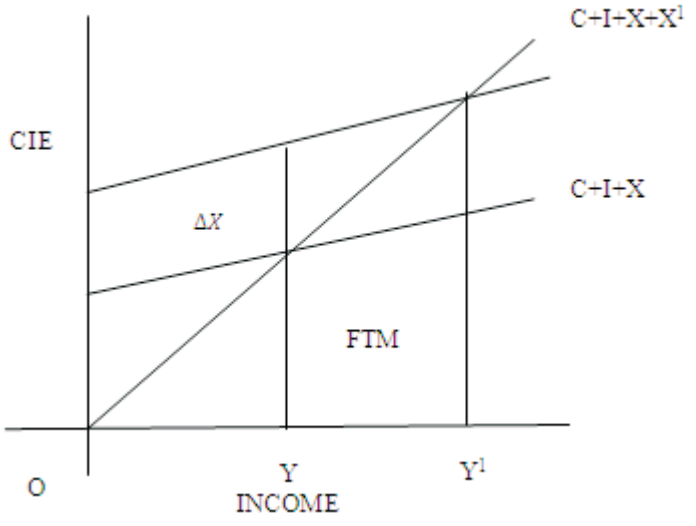
$$= \frac{\Delta y}{\Delta x}$$

FTM depend upon marginal propensity to import (M) and to save (S)

$$F_K = \frac{1}{M+S} = \frac{1}{0.1+0.3} = 2.5$$

This means that if x increases by 20 cr. Then the final increase in income would be Rs. 20 cr x 2.5 = 50cr. FTM can be represented in the following diagram

Volume - 5 | Issue - 12 | September - 2016



There are of course many leakages in the multiplier propagation of income; we have thus shown a short-term model of income determination.

REF. BOOK:-

1)Fundamentals of monetary economics :-Dr.B.N.Ghosh
2)Macroeconomic Analxsis, :-Shapiro, E (1996) Galgotia Publication New Delhi
3)Macroeconomic Theory and Policy :- Ackley G
4)Macroeconomic Theory and Policy :- Branson . W.A
5)Modern Monetary Theory :- Kishore G. Kulkarni
6)Modern Theory :- M.C. Vaish
7)Monetary Economics :- N. Gregory Mankiw
8)National Income and flow of Funds analysis :- Powelson J.P
9)Foundations of Modern :-Heijdra. B.J Macroeconomics

Prof. Dr. D.G.Patil
G.T.Patil College, Nandurbar.

Publish Research Article
International Level Multidisciplinary Research Journal
For All Subjects

Dear Sir/Mam,

We invite unpublished Research Paper,Summary of Research Project,Theses,Books and Books Review for publication,you will be pleased to know that our journals are

Associated and Indexed,India

- Directory Of Research Journal Indexing
- International Scientific Journal Consortium Scientific
- OPEN J-GATE

Associated and Indexed,USA

- DOAJ
- EBSCO
- Crossref DOI
- Index Copernicus
- Publication Index
- Academic Journal Database
- Contemporary Research Index
- Academic Paper Databse
- Digital Journals Database
- Current Index to Scholarly Journals
- Elite Scientific Journal Archive
- Directory Of Academic Resources
- Scholar Journal Index
- Recent Science Index
- Scientific Resources Database

Review Of Research Journal
258/34 Raviwar Peth Solapur-
413005,Maharashtra
Contact-9595359435
E-Mail-ayisrj@yahoo.in/ayisrj2011@gmail.com