2. Income approach

All final goods and services are produced using factors of production. By summing up the factor payments, we can find the value of GDP. Some adjustments are required to balance the account.

1) **Compensation of employees** includes the wages, salaries, Social insurance, health and pension plans.
2) **Rent** is the income received by the households and businesses that supply property resources.
3) **Interest** is the income of the money capital suppliers.
4) **Proprietors’ Income** is the net income of incorporated business, sole proprietorships, and partnerships.
5) **Corporate Profits** are the earnings of owners of corporations such as: (corporate income taxes, dividends, undistributed corporate profits).
6) **Taxes on Production and Imports** include general sales taxes, excise taxes, business property taxes, license fees, and customs duties

The sum of the above items is the **National Income (NI)**.

\[
\text{National Income (NI)} = \text{Compensation of employees} + \text{Rent} + \text{Interest} + \text{Proprietors’ Income} + \text{Corporate Profits} + \text{taxes on production and imports}
\]

**Adjustments:**

1) **Net foreign factor income**: income earned by the rest of the world.
2) **Statistical discrepancy**
3) **Consumption of fixed capital (Depreciation)**
Computing GDP:

GDP = Compensation of employees + Rent + Interest + Proprietors’ Income + Corporate Profits + taxes on production and imports - Net foreign factor income + Statistical discrepancy + consumption of fixed capital (Depreciation).

<table>
<thead>
<tr>
<th>Allocations: Income Approach</th>
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</thead>
<tbody>
<tr>
<td>Compensation of employees</td>
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<tr>
<td>Rents</td>
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<tr>
<td>Interest</td>
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<tr>
<td>Proprietors’ income</td>
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<tr>
<td>Corporate profits</td>
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<tr>
<td>Taxes on production and imports</td>
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<tr>
<td>National income^1</td>
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<tr>
<td>Net foreign factor income</td>
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<td>Statistical discrepancy</td>
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<tr>
<td>Consumption of fixed capital</td>
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<tr>
<td>Gross domestic product</td>
</tr>
</tbody>
</table>

Expenditures, or output, approach

Consumption expenditures by households
  plus
Investment expenditures by businesses
  plus
Government purchases of goods and services
  plus
Expenditures by foreigners

Income, or allocations, approach

Wages
  plus
Rent
  plus
Interest
  plus
Profits
  plus
Statistical adjustments

GDP = Total Expenditure = Income