

Gross Domestic Product

Don't accept your dog's admiration as conclusive evidence that you are wonderful.

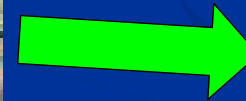
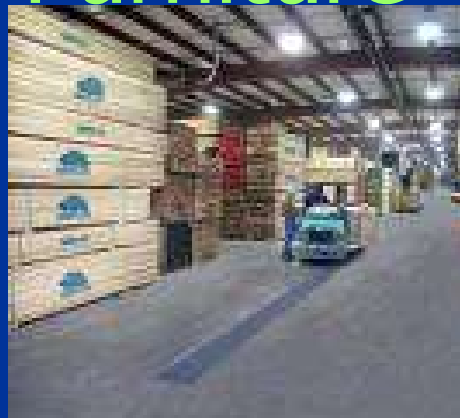
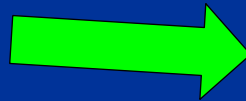
What is the GDP?

- Economists monitor the macro-economy using national income accounting, a system that collects statistics on production, income, investment, and savings.
- Gross domestic product (GDP) is the dollar value of all final goods and services produced within a country's borders in a given year.

Final Goods Vs. Intermediate Goods

- GDP does not include the value of intermediate goods. Intermediate goods are goods used in the production of final goods and services.

Furniture



Tree – intermediate good
not counted in GDP

Lumber – intermediate good
not counted in GDP

Chest – Final Good
counted in GDP

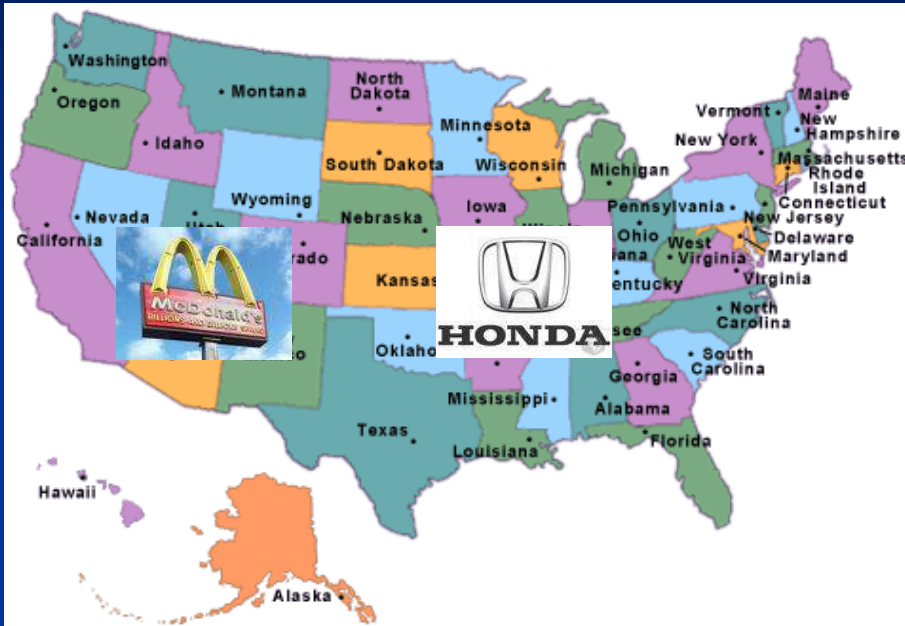
GNP

- $GNP = GDP + (\text{Income earned outside of the US by US firms and citizens}) - (\text{income earned by foreign firms and foreign citizens located in the US})$

GNP vs. GDP

USA

Japan



U.S.A. GDP =



(In the U.S.)

+



(In the U.S.)

U.S.A. GNP =



(In the world)

-

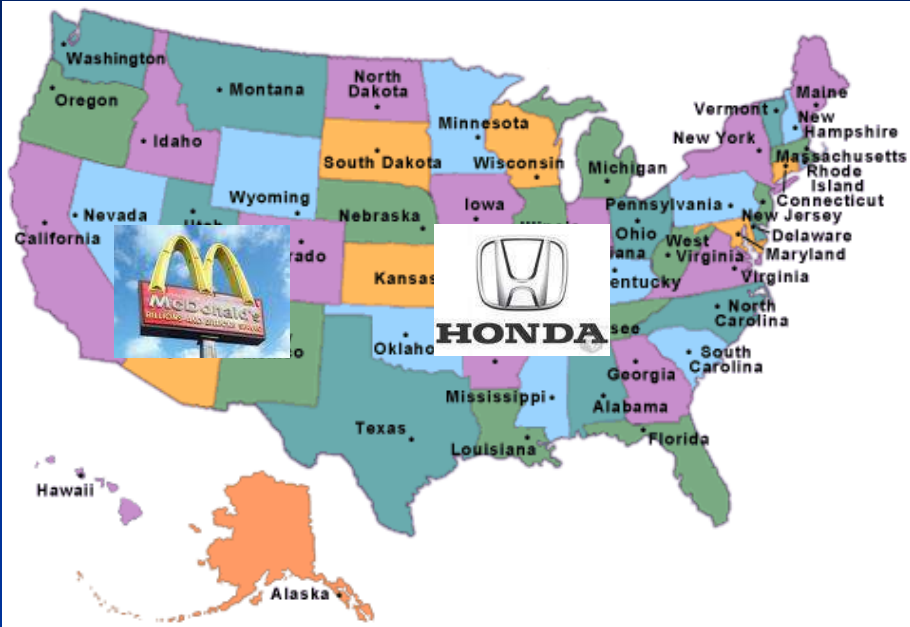


(In the U.S.)

GDP

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U.S.A. GDP =



(In the U.S.)

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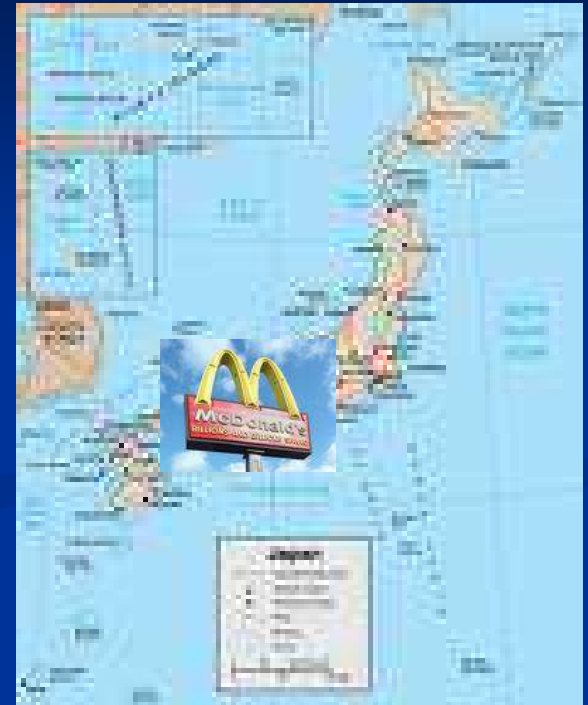


(In the U.S.)

GNP

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(In the world)

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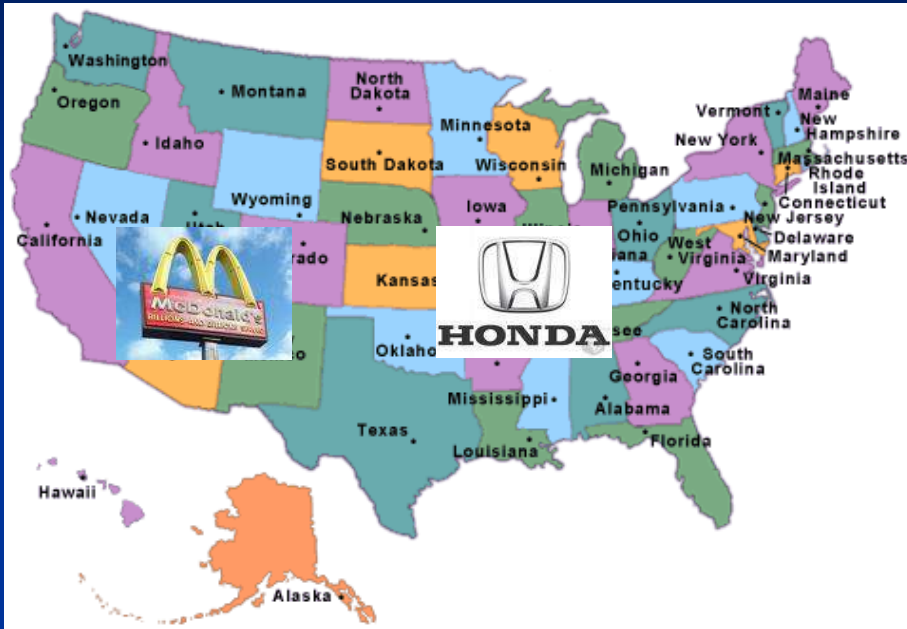


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(In the world)

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(In the U.S.)

GNP vs. GDP

- GDP is all the final goods produced within the country's borders where GNP is the total income earned worldwide by US firms and citizens
- GNP is Gross national product

How GDP is calculated:

Expenditure Approach

- Add up all of these expenditures:
- consumer goods and services
- business goods and services
- government goods and services
- net exports or import of goods and services

Consumer goods include durable goods and nondurable goods

Income Approach

- Add together all the income of the workers and owners that make the goods and services
- Ideally the expenditure approach and income approach should be equal.

Nominal versus Real GDP

- Nominal GDP is the actual dollar value.
However, \$100 in 1900 is not the same as \$100 in 2000.
- Real GDP takes into account inflation. A base year is established and all GDP values are calculated using the base year.

Limitations of GDP Economic Activities that are not included in GDP

- Nonmarket Activities like mowing your lawn
- The underground economy; black market
- Negative externalities: smoke stacks might have more production but cause more pollution
- Quality of Life – taking a park and turning it into a mall would increase GDP