Chapter 11.1 Notes
Gross Domestic Product

<u>Objectives</u>

Gross Domestic Product

- ***Describe what the gross domestic product measures.***
- ***Learn two ways to calculate the gross domestic product, and explain why they are equivalent***

The National Economy

- ***Economy*** **describes the structure of economic activity in a locality, a region, a country, a group of countries, or the world.**
- **National economics, or macroeconomics, focuses on the overall performance of the economy.**

<u>Gross Domestic Product</u>

Gross domestic product (GDP) **measures the market value of all final goods and services produced in the United States during a given period.**

National Income Accounts

- **Organize huge quantities of data collected from a variety of sources across the United States**
- **Keep track of the value of** ***final goods and services***

No Double Counting

- ***Intermediate goods and services*** **are those purchased for additional processing and resale.**
- **Sales of intermediate goods and services are excluded from GDP to avoid the problem of double counting.**
- **GDP also ignores most of the secondhand value of used goods, such as existing homes and used cars.**

Calculating GDP

- **GDP based on the expenditure approach**
- **GDP based on the income approach**

GDP Expenditure Approach

- **The** ***expenditure approach*** **to GDP adds up the spending on all final goods and services produced in the economy during the year.**
- $C + I + G + (X - M) = GDP$
- ***C=Consumption*** **consists of purchases of final goods and services by households during the year.**
- ***I=Investment*** **consists of spending on new capital goods and additions to inventories.**
- ***G= Government spending***
- ***(X-M)or XN=Net Export. The dollar value of Exports minus Imports***
- ***When C, I or G INCREASE, GDP INCREASES. When C, I or G Decrease, GDP decreases. When Exports (X) increase, GDP increases. When Imports (M) increases, GDP decreases.***
- ***Aggregate expenditure*** **equals the sum of consumption, investment, government purchases, and net exports.**

GDP Income Approach

- ***The income approach*** **to GDP adds up the aggregate income earned during the year by those who produce that output.**
- ***Aggregate income*** **equals the sum of all the income earned by resource suppliers in the economy.**