What is GDP?

DEFINITION

GDP stands for "Gross Domestic Product" and represents the total monetary value of all final goods and services produced (and sold on the market) within a country during a period of time (typically 1 year).

PURPOSE

GDP is the most commonly used measure of economic activity.

HISTORY

The first basic concept of GDP was invented at the end of the 18th century. The modern concept was developed by the American economist Simon Kuznets in 1934 and adopted as the main measure of a country's economy at the Bretton Woods conference in 1944.

What does"Gross" stand for?

"Gross" (in "**Gross** Domestic Product") indicates that products are counted regardless of their subsequent use. A product can be used for consumption, for investment, or to replace an asset. In all cases, the product's final "sales receipt" will be added to the total GDP figure.

In contrast, "Net" doesn't account for products used to replace an asset (in order to offset depreciation). "Net" only shows products used for consumption or investment.

What does"Domestic" stand for? (GDP vs. GNP and GNI)

Domestic (GDP)
"Domestic" (in "Gross **Domestic** Product") indicates that the inclusion criterion is geographical: goods and services counted are those produced **within the country's border**, regardless of the nationality of the producer. For example, the production of a German-owned factory in the United States will be counted as part of United States' GDP.

National (GNP)
In contrast, "National" (in "Gross **National** Product") indicates that the inclusion criterion is based on citizenship (nationality): goods and services are counted when produced by a national of the country, regardless of where the production physically takes place. In the example, the production of a German-owned factory in the United States will be counted as part of Germany's GNP (Gross National Product) in addition to being counted as part of United States' GDP.

GNI
GNI (Gross National Income) is a metric similar to GNP, since both are based on nationality rather than geography. The difference is that, when calculating the total value, GNI uses the income approach whereas GNP uses the production approach to calculate GDP. Both GNP and GNI should theoretically yield the same result.

What does "Product" stand for?

"Product" (in "Gross Domestic **Product**") stands for production, or economic output, of final goods and services sold on the market.

Included in GDP:

- **Final** goods and services **sold for money**. Only sales of **final goods** are counted, because the transaction concerning a good used to make the final good (for example, the purchase of wood used to build a chair) is already incorporated in the final good total value (price at which the chair is sold).

Not included in GDP:

- unpaid work: work performed within the family, volunteer work, etc.
- non-monetary compensated work
- goods not produced for sale in the marketplace
- bartered goods and services
- black market
- illegal activities
- transfer payments
- sales of used goods
- intermediate goods and services that are used to produce other final goods and services

Nominal (Current) GDP vs Real (Constant) GDP

Nominal GDP (or "Current GDP") = face value of output, without any inflation adjustment

Real GDP (or "Constant GDP") = value of output adjusted for inflation or deflation. It allows us to determine whether the value of output has changed because more is being produced or simply because prices have increased. Real GDP is used to calculate GDP growth.

How to calculate GDP

GDP can be calculated in three ways: using the production, expenditure, or income approach. All methods should give the same result.

- **Production approac**h: sum of the “value-added” (total sales minus the value of intermediate inputs) at each stage of production.

- **Expenditure approach:** sum of purchases made by final users.
- **Income approach**: sum of the incomes generated by production subjects.

GDP Formula

The formula for calculating GDP with the expenditure approach is the following:

> GDP = private consumption + gross private investment + government investment + government spending + (exports – imports).

or, expressed in a formula:

> GDP = C + I + G + (X – M)

GDP is usually calculated by the national statistical agency of the country following the international standard. In the United States, GDP is measured by the Bureau of Economic Analysis (https://www.bea.gov/) within the U.S. Commerce Department. The international standard for measuring GDP is contained in the System of National Accounts, compiled in 1993 by the International Monetary Fund (IMF), the European Commission, the Organization for Economic Cooperation and Development (OECD), the United Nations (UN), and the World Bank.

GDP Growth Rate

*See also: **Global GDP Growth Rate** (/gdp/#growthrate)*

The GDP growth rate measures the percentage change in real GDP (GDP adjusted for inflation) from one period to another, typically as a comparison between the most recent quarter or year and the previous one. It can be a positive or negative number (negative growth rate, indicating economic contraction).

GDP per capita

*See also: **List of Countries by GDP per Capita** (/gdp/gdp-per-capita/)*

GDP per capita is calculated by dividing nominal GDP by the total population of a country. It expresses the average economic output (or income) per person in the country. The population number is the average (or mid-year) population for the same year as the GDP figure.

See also

- GDP by Country (/gdp/gdp-by-country/) - top 20 countries (/gdp/#top20) - (/gdp/#gdpyear)per capita (/gdp/gdp-per-capita/) (/gdp/#region)
- Global GDP (/gdp/): by year (/gdp/#gdpyear) - by region (/gdp/#region) - growth (/gdp/#growthrate)

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