

GDP: Measuring Total Production and Income

Prepared by:

Fernando & Yvonn Quijano

Increases in GDP Help Revive American Airlines



The business cycle does not affect all industries in the same way. For example, some trucking firms experienced slow sales during 2006 while airlines were prospering.

Learning Objectives

- 7.1 Explain how **total production** is measured.
 - 7.2 Discuss whether **GDP** is a good **measure of well-being**.
 - 7.3 Discuss the difference between **real GDP** and **nominal GDP**.
 - 7.4 Become familiar with **other measures of total production and total income**.
-

Other Measures of Total Production and Total Income

Gross National Product (GNP):

GNP is the value of final goods and services produced by residents of the U.S., even if the production takes place outside the United States.

Net National Product (NNP):

If we subtract the value of the worn-out machinery, equipment, and buildings from GNP, we obtain the net national product.

National Income

If we subtract the value of sales taxes from net national product, we obtain the national income.

Personal Income:

Personal income is income received by households. It is calculated by subtracting the earnings that corporations retain rather than pay to shareholders in the form of dividends. We also add in the payments received by households from the government in the form of transfer payments or interest on government bonds.

Equations formats:

NNP: Net National Product

NI: National Income

PI: Personal Income

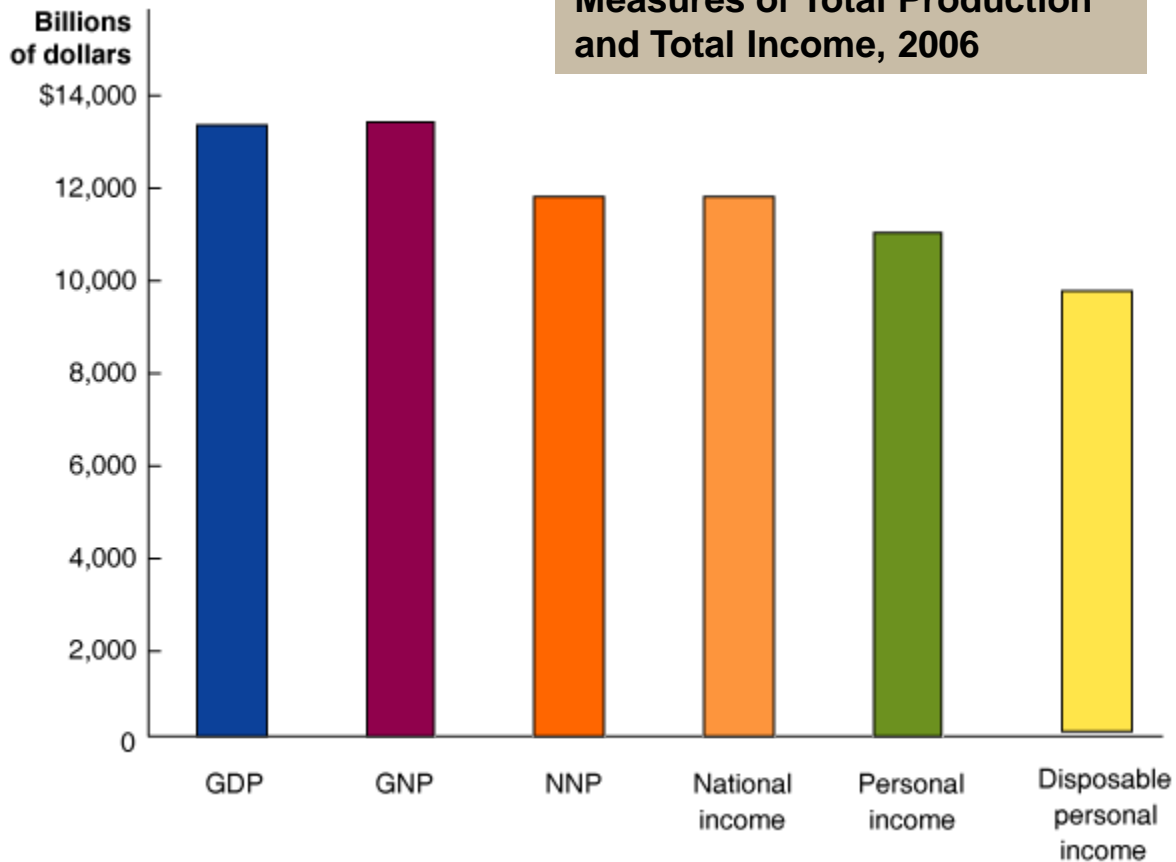
DPI: Disposable Personal Income

1. $GDP = C + I + G + NX$
 $= (C + G + NX) + I$
 $= \text{Total Consumption} + \text{Investment}$
2. $NNP = GNP - \text{Depreciation}$
3. $\text{National Income (NI)} = NNP - \text{Sales Tax}$
4. $DPI = PI - \text{Income Tax}$

Other Measures of Total Production and Total Income

Disposable Personal Income: *calculated as personal income minus personal tax payments, such as the federal personal income tax. It is the best measure of the income households have available to spend.*

Measure	Billions of dollars
GDP	\$13,247
GNP	13,277
NNP	11,700
National Income	11,702
Personal Income	10,883
Disposable Personal Income	9,523



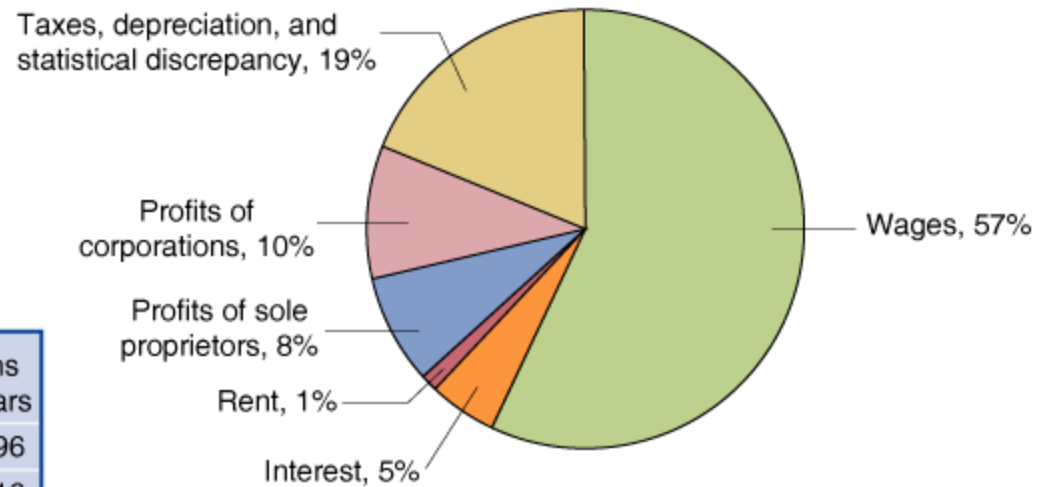
Other Measures of Total Production and Total Income

The Division of Income

FIGURE 7-5

The Division of Income

		Billions of dollars
Wages		\$7,496
Interest		716
Rent		77
Profit		2,387
Profits of sole proprietors	1,015	
Profits of corporations	1,372	
Taxes, depreciation, and statistical discrepancy		2,571



Key Terms

Business cycle

Consumption

Economic growth

Expansion

Final good or service

GDP deflator

Government purchases

Gross domestic product (*GDP*)

Inflation rate

Intermediate good or service

Investment

Macroeconomics

Microeconomics

Net exports

Nominal GDP

Price level

Real GDP

Recession

Transfer payments

Underground economy

Value added