INTRODUCTION TO ECONOMICS

LEARNING JOURNAL UNIT 8

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The gross domestic product (GDP) is defined as the measure of the total value of goods and services produced within a nation's borders over a specific period, typically over a year. It can be influenced by plenty of factors such as fluctuations or changes in business taxes, personal income, or payment transfers (Fernando, 2024). These factors affect the GDP by the changes in investments, consumptions and how and where the money is spent by the government. The factors are also included in the calculation of the GDP.

The major decisions of any company’s profitability or investment are dependent on these business taxes such as corporate taxes. If these taxes are less or reduced, companies have more disposable income in their hands and can invest in more projects, expand their projects, or can invest in Research and development (R&D) activities (Mertens & Ravn, 2013). The more the investment, the more it will positively affect the GDP growth by increasing domestic production and increased employment because of that. However higher business taxes can discourage investment and hinder economic growth (Lee & Gordon, 2005).

As a consumer my expenditure, tax payments and transfer payments are highly influenced by my income level and my disposable income. If I get more income due to tax cuts or through transfer payments such as social security benefits or unemployment benefits, then as a consumer, I am inclined to spend more on goods and services (Jappelli & Pistaferri, 2010). This increased consumer spending boosts GDP. However, if my income decreases from higher taxes or reduced transfers, my spending may decline which negatively affects GDP.

Transfer payments provide a crucial safety net during tough times enabling people to maintain a level of consumption which helps stabilize GDP during recessions (Auerbach &

Feenberg, 2000). However, excessive transfers can strain government budgets potentially leading to higher future taxes or borrowing which may harm long-term growth.

Government spending is also part of GDP calculations. Tax revenue decreases from tax cuts or recessions may force governments to reduce spending or borrow more to maintain existing programs and transfers. But increased tax revenues allow more spending on areas like infrastructure and education which could boost economic growth and GDP (Barro, 1990).

In essence, these three factors influence GDP through their impact on consumption, investment, and government expenditures. While short-term stimulus from tax cuts and transfers can boost growth, excessive borrowing or imbalances may undermine sustainable development. Overall, policymakers must carefully weigh the pros and cons of their economic policies to nurture stable, sustainable GDP growth.

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