

GDP

Gross Domestic Product -- dollar value of all final goods & services produced within the country's borders in a year.

Only the finished product is counted, and only new products.

Only goods produced within the country's borders.

Nominal GDP

- Current year production x current year prices
- Expenditure Approach
- Income Approach
- Value-Added Approach
- $(\text{Real GDP} \times \text{GDP Deflator})/100$

Calculating GDP

Expenditure Approach

$$GDP = C + I + G + NX$$

Consumer spending (C)

Household purchases of consumer goods.

Must consider:

1. Taxes
2. Savings
 1. Reasons: security or speculation
3. Consumption
 1. Durables: live expected over year.
 2. Non-durables: live expected less than a year.
 3. Service
4. Dissave

1. spend savings or borrow

Business investments (I)

Buy capital to increase production in the future. Invest in capital goods.

1. All final purchases on machinery
2. All construction
3. Changes in inventory

Gross private domestic investment (IG)

Production of all investment goods

- Growing economy: If Gross private domestic investment exceeds depreciation.
- Static economy: If Gross private domestic investment is equal to depreciation
- Declining economy: if Gross private domestic investment is less than depreciation.

Net private domestic investment: the added investment in the current year.

Government purchases (G)

Government purchases of domestic goods and services.

All governmental spending. excluding transfer payments.

Net exports (NX)

(Exports – Imports)

The amount by which foreign spending on American goods and services exceeds American spending on foreign goods and services.

Not counted in GDP

- Intermediate goods
- Secondhand sales
- Nonmarket transactions
- Financial transactions
- Underground transactions -- Sale of illegal items
- Transfer payments/subsidies

Income Approach

$$\text{Rent} + \text{Wages} + \text{Interest} + \text{Profits}$$

Value-Added Approach

$$\sum_{i=0}^n \text{Value of input}$$

GDP per capita

$$\frac{\text{GDP}}{\text{Population}}$$

Real GDP

Nominal GDP adjusted for inflation.

Look at [formulas](#)