

Production and Income I

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Contents

- Please Read Me
- Purpose
- Gross Domestic Product (GDP)
- Economic Growth
- Acknowledgments
- References

Please Read Me

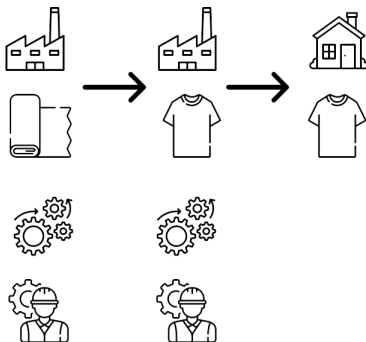
- Check the message **Welcome greeting** published in the News Bulletin Board.
- Dear student please edit your profile uploading a photo where your face is clearly visible.
- The purpose of the virtual meetings is to answer questions and not to make a summary of the study material.
- This presentation is based on ([Cardenas 2020, chap. 2](#))

Purpose

Understand how production is measured using the concept of Gross Domestic Product (GDP)

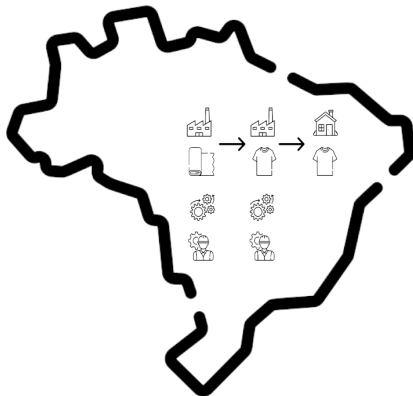
Gross Domestic Product (GDP)

- What is? ([Lequiller and Blades 2014](#), p 19)
 - **Product:** means that we are trying to measure production without double counting



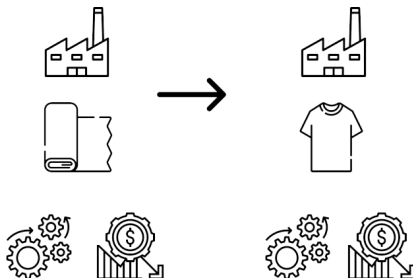
Gross Domestic Product (GDP)

- What is? ([Lequiller and Blades 2014](#), p 19)
 - **Domestic:** means that the production to be taken into account is the one that is carried within a certain territory clearly delimited



Gross Domestic Product (GDP)

- What is? ([Lequiller and Blades 2014](#), p 19)
 - **Gross:** means that depreciation is not deducted (in economy it is called consumption of fixed capital). In other words, the decrease in the value of the assets used in the production process due to physical deterioration, foreseeable wear or accidental damage is not deducted



Gross Domestic Product (GDP)

- How is measure?
 - 3 equivalent¹ approaches are used ([Lequiller and Blades 2014](#), p 31)
 - **Output/Production approach**: adding the aggregate value of all the production units in a territory, plus taxes minus subsidies on products
 - **Income approach**: adding all the incomes that are perceived because of the contribution to the production process
 - **Expenditure/Final demand approach**: adding all uses that firms, non-profit institutions, government bodies, households and the external sector give to production
 - Gross Domestic Product is a flow so is measured over a period of time. Usually you can find information about this variable in an monthly, quarterly or yearly periodicity
 - Initially Gross Domestic Product is expressed in **current** Local Currency Units (LCU)

¹In practice, discrepancies may occur

Gross Domestic Product (GDP)

- Output/Production approach (Colombia, Period: 2023-Q1)

| Concepto | Miles de Millones - COP ^a |
|--|--------------------------------------|
| Agricultura, ganadería, caza, silvicultura y pesca | 34169 |
| Explotación de minas y canteras | 25034 |
| Industrias manufactureras | 42874 |
| Suministro de electricidad, gas, vapor y aire acondicionado; Distribución de agua; evacuación y tratamiento de aguas residuales, gestión de desechos y actividades de saneamiento ambiental | 14649 |
| Construcción | 15663 |
| Comercio al por mayor y al por menor; reparación de vehículos automotores y motocicletas; Transporte y almacenamiento; Alojamiento y servicios de comida | 70435 |
| Información y comunicaciones | 9087 |
| Actividades financieras y de seguros | 15214 |
| Actividades inmobiliarias | 27073 |
| Actividades profesionales, científicas y técnicas; Actividades de servicios administrativos y de apoyo | 23107 |
| Administración pública y defensa; planes de seguridad social de afiliación obligatoria; Educación; Actividades de atención de la salud humana y de servicios sociales | 49489 |
| Actividades artísticas, de entretenimiento y recreación y otras actividades de servicios; Actividades de los hogares individuales en calidad de empleadores; actividades no diferenciadas de los hogares individuales como productores de bienes y servicios para uso propio | 14458 |
| Valor agregado bruto | 341251 |
| Impuestos menos subvenciones sobre los productos | 43038 |
| Producto interno bruto | 384290 |

Source: DANE - Cuentas Nacionales Trimestrales - Producto Interno Bruto desde el enfoque de la producción a precios corrientes - Cuadro 1 Datos originales
 Last update: 2023-05-15

^a Preliminary data at current prices

Gross Domestic Product (GDP)

- Income approach (Colombia, Period: 2023-Q1)

| Concepto | Miles de Millones - COP ^a |
|---------------------------------|--------------------------------------|
| Remuneración de los asalariados | 113056 |
| Impuestos menos subvenciones | 64872 |
| Excedente Bruto de Explotación | 126367 |
| Ingreso Mixto | 79995 |
| Producto Interno Bruto | 384290 |

Source: DANE - Cuentas Nacionales Trimestrales - PIB por Ingreso - S1 Total Economía

Last update: 2023-06-30

^a Preliminary data at current prices

Gross Domestic Product (GDP)

- Expenditure/Final demand approach (Colombia, Period: 2023-Q1)

| Concepto | Miles de Millones - COP ^a |
|---|--------------------------------------|
| Gasto de consumo final individual de los hogares y las ISFLH ^b | 278751 |
| Gasto de consumo final del gobierno general | 41218 |
| Formación bruta de capital | 85483 |
| Exportaciones | 75596 |
| Importaciones | 96758 |
| Producto Interno Bruto | 384290 |

Source: DANE - Cuentas Nacionales Trimestrales - Producto Interno Bruto desde el enfoque del gasto a precios corrientes - Cuadro 1 Datos originales

Last update: 2023-05-15

^a Preliminary data at current prices

^b Instituciones sin fines de lucro que sirven a los hogares

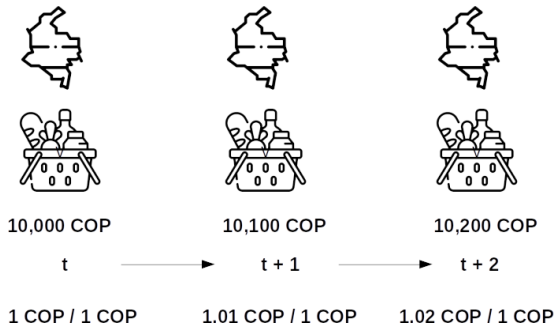
Gross Domestic Product

- What adjustments are applied?²
 - **Inflation adjustments**
 - GDP is expressed in **constant** Local Currency Units (LCU)
 - **Season and calendar adjustments**
 - In Colombia this is applied to quarterly GDP ([DANE 2018](#))
 - **Population adjustments**
 - GDP is expressed in per capita terms
 - **Purchase Power Parity (PPP) adjustment**
 - It is used only to make international comparisons and it is led by the International Comparison Program (ICP)

²For an introduction of the first 3 adjustments check out ([Hyndman and Athanasopoulos 2021, chap. 3](#), Section 3.1 Transformations and adjustments)

Gross Domestic Product

- An inflation adjustment is necessary because an arbitrary quantity of local currency units don't have the same purchase power in different periods



Gross Domestic Product

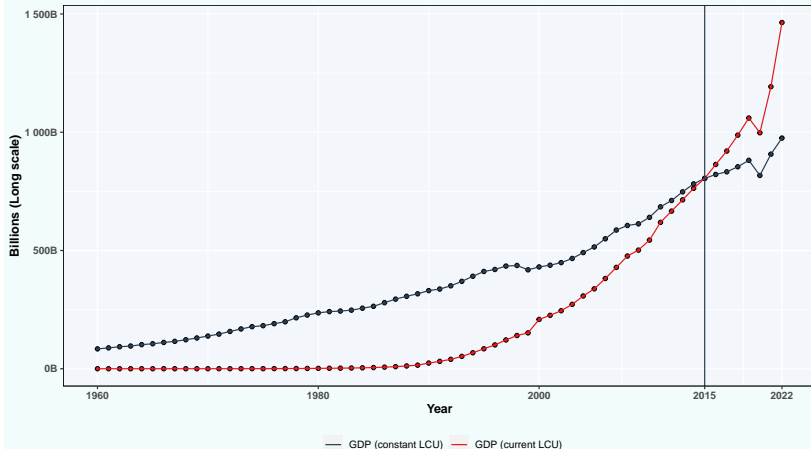
Nominal and Real GDP Colombia

Nominal GDP code WDI: NY.GDP.MKTP.CN

Nominal GDP units: current LCU

Real GDP code WDI: NY.GDP.MKTP.KN

Real GDP units: constant LCU Base Year 2015



Source: World Development Indicators (WDI) – World Bank
Last update date: 2023-06-29

Gross Domestic Product

- Some countries have more population than others so they can produce more. Therefore it is necessary to express the GDP per inhabitant

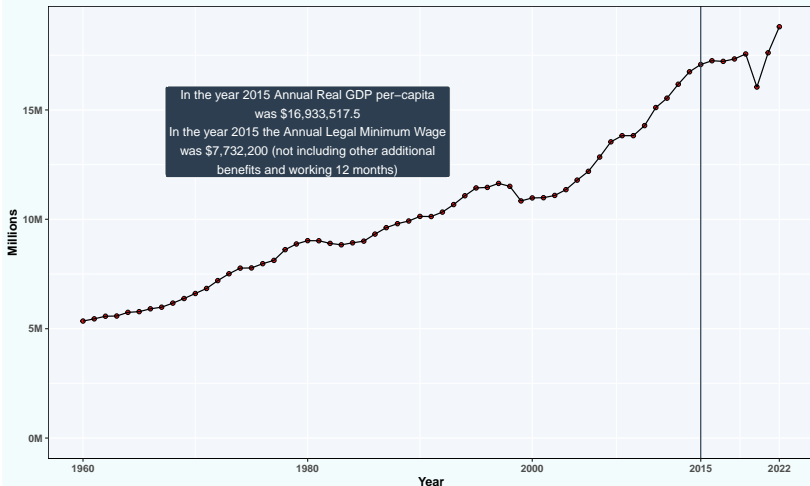


Gross Domestic Product

Real GDP per-capita Colombia

Variable code WDI: NY.GDP.PCAP.KN

Variable units: constant LCU Base Year 2015



Source: World Development Indicators (WDI) – World Bank
Last update date: 2023-06-29

Gross Domestic Product

- Purchasing power parity
 - The amount of products that 1 local currency unit of an economy can buy in another economy



10 USD



10,000 COP

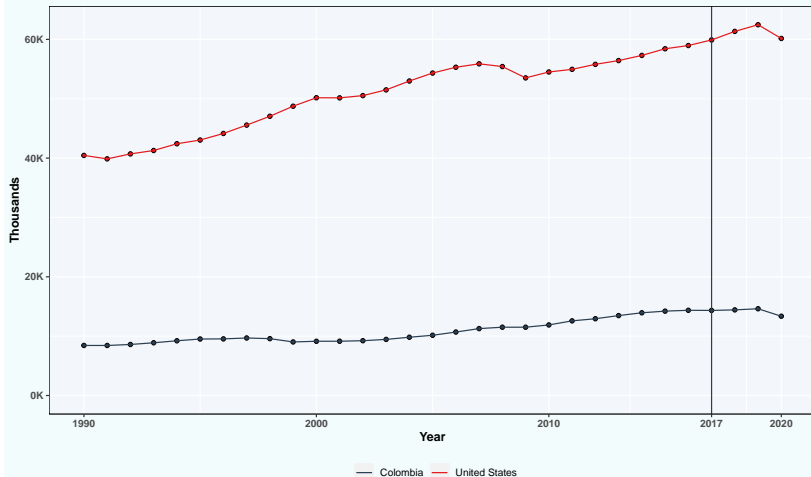
$$10,000 \text{ COP} / 10 \text{ USD} = 1,000 \text{ COP} / 1 \text{ USD}$$

Gross Domestic Product

GDP per-capita purchasing power parity, Colombia and USA

Variable code WDI: NY.GDP.PCAP.KN

Variable units: constant 2017 international USD



Source: World Development Indicators (WDI) – World Bank
Last update date: 2023-06-29

Economic Growth

- The most common metric used to measure economic growth is the annual percent growth of real GDP per capita.
 - If the periodicity of real GDP per capita is **yearly** and we don't want to make international comparisons the formula is:

$$\frac{\text{GDP per capita constant LCU}_t - \text{GDP per capita constant LCU}_{t-1}}{\text{GDP per capita constant LCU}_{t-1}} \times 100$$

Economic Growth

- The most common metric used to measure economic growth is the annual percent growth of real GDP per capita.
 - If the periodicity of real GDP per capita is **quarterly** and we don't want to make international comparisons the formula is:

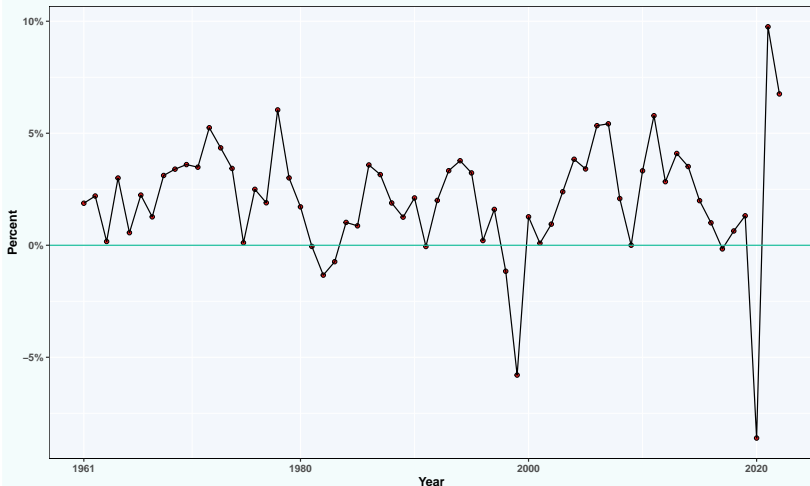
$$\frac{\text{GDP per capita constant LCU}_t - \text{GDP per capita constant LCU}_{t-4}}{\text{GDP per capita constant LCU}_{t-4}} \times 100$$

Economic Growth

Growth real GDP per-capita Colombia

Variable code WDI: NY.GDP.PCAP.KD.ZG

Variable units: annual percent using constant LCU Base Year 2015



Source: World Development Indicators (WDI) – World Bank
Last update date: 2023-06-29

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- To the taxpayers of Colombia and the **UMNG students** who pay my salary
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- To the **Linux kernel community** for allowing me the possibility to use some **Linux distributions** as my main **OS** without paying for a license

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