Macroeconomics & well-being II

Principles of Macroeconomics // Spring 2025

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Readings

Recommended readings

Required readings:

- Macroeconomics in Context, 4th ed.
 - → Chapter 4, sections 1—3.

Required listening:

Planet Money podcast: GDP and what counts (NPR)

Words of the day

- "Economic" vs. "business" investment;
- Circular flow.

Quick review

Quick review

Measured by what each economic sector **spends**, **Gross Domestic Product** (GDP) can be defined by:

$$\mathrm{GDP} = C + I + G + (X - M)$$

A few questions:

- Examples of Consumption (C) expenditures?
- What do we mean by **Investment** (/)?
- Examples of Government spending?
- How do we call **(***X* -*M***)**?

After seeing how GDP can be computed via the **spending approach**, one can get the same results by:

- Adding up all **incomes**, rather than *expenditures*.
- What is the *logic* of doing that?

What are the incomes earned by:

- Households?
- Firms?
- Government?

Wages + Profits + Rents + Interest + Net Taxes
$$\approx C + I + G + (X - M)$$

With that, we arrive at a country's **Gross Domestic Income** (GDI).

A country's **Gross Domestic Income** (GDI) is defined by:

The total amount of money earned by a nation's people and its businesses.

Q: What is the **GDI** of the U.S. economy?

A: As of the third quarter of 2024 (2024Q3), its GDI is of US\$ 29.11 trillion.

Q: But wasn't the U.S. GDP around US\$ 29.37 trillion?

A: Yes, but different data sources yield different results.

Statistical discrepancy.

As an **example**, suppose a simple economy producing a *single* product: bread.

It is produced in **three** stages:

- 1. Wheat is grown, harvested, and sold for \$1 by a farmer to a miller (for simplification, assume the wheat is produced using *no* intermediate goods);
- 2. The wheat is used by a miller to produce flour, which is sold for \$3; and
- 3. The flour is used by a baker to produce bread, which is sold to a consumer for \$7.

Q1: What is this economy's Gross Domestic Income?

Q2: What is this economy's Gross Domestic Product?

Reality check

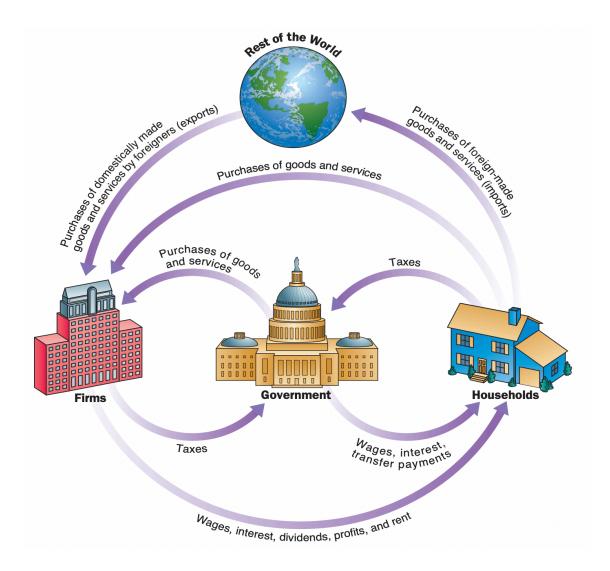
Reality check

• U.S. Gross Domestic Product over time

• U.S. National Income and Product Accounts

GDP wrap-up

The circular flow



Source: Case, Fair, and Oster (2012).

Breaking down GDP

What do we mean by:

- Gross?
- Domestic?
- Product?

GDP by expenditure

• U.S. Gross Domestic Product over time, again

Quick practice

Quick practice

Suppose you are given the following data (in US\$ billions):

- Sales of durable goods: \$ 1,035
- Nonresidential investment expenditures: \$ 1,388.80
- Federal Government expenditures: \$ 1,144.80
- Changes in business inventories: \$ -120.90
- *Exports*: \$ 1,564.20
- Services: \$ 6,833.90
- Sales of nondurable goods: \$ 2,220.20
- State and local government spending: \$ 1,786.90
- *Imports*: \$ 1,956.60
- Residential investment: \$ 361.00

Compute (a) each **aggregate expenditure** and (b) its **total value**.

Next time: Shapes and forms of GDP