GROSS DOMESTIC PRODUCT ANALYSIS

Gross domestic product (GDP) is the market value of all officially recognized final goods and services produced within a country in a year (or some other period of time). GDP is one of the primary indicators used to gauge the health of a countries economy. GDP per capita is often considered an indicator of a country's standard of living.

Economic production and growth (what GDP is supposed to represent) has a large impact on nearly everyone within that economy. For example, growth in GDP is associated with low unemployment and increasing wages because consumers are spending more and businesses are hiring to keep up with demand. On the other hand, declining GDP is associated with slow spending which leads to lower profits and higher unemployment. Economists are particularly worried about declining GDP as this is typically associated with a recession.

Macroeconomists face a number of issues in understanding driving forces behind GDP. First, GDP growth theories are not explicit about what variables contribute to a rise (or decline) in GDP. For example, growth theories typically state that "technological innovation" is a driving force for GDP. But, what is a measure "technological innovation"? Several possibilities include energy consumption, resource consumption efficiency, and technological goods produced. A second issue is the multiplicity (collinearity) of possible predictors. For example x_1 is significant when x_2 and x_3 are included in a model but is insignificant when x_4 is included.

The variable `GR6096` in the GDP dataset consists of GDP growth (or decline) for 60 countries between the years 1960-1996 along with 67 possible socio-economic, political and geographical predictors of growth. Variable descriptions are found in the file `GDPnames.txt`.