Lecture 11: Gross Domestic Product

gross domestic product
GDP as a measure of welfare

Gross Domestic Product

GDP is the value of all **currently produced goods and services** **produced within the borders of an economy** **sold on the market** during a particular time interval but **not resold**.

Currently produced goods and services means that GDP excludes

1. any used items such as houses and cars
2. any transaction in which money is transferred without any accompanying good or service in return, e.g. government transfer payments, inheritances

Produced within the borders of an economy means that GDP includes production that takes place in U.S., without regard to whether the production is done by U.S. or foreign factors of production, e.g. Japanese cars produced in Kentucky

Sold on the market means that

- goods and services are valued at their market prices
- GDP excludes things not exchanged on the market like housework and volunteer work

Not resold means that

- GDP only counts final products (those purchased by the ultimate user). Intermediate goods intended for resale or further processing are excluded lest we be guilty of double-counting.

GDP as a Measure of Welfare

GDP is not a perfect measure of economic well-being.

- GDP includes some items that clearly do not contribute to economic welfare (for example, repairing the damage from hurricanes increases GDP) and excludes other that clearly do such as volunteer work and housework
- underground economy
  - unreported income from legal sources
  - income from illegal sources