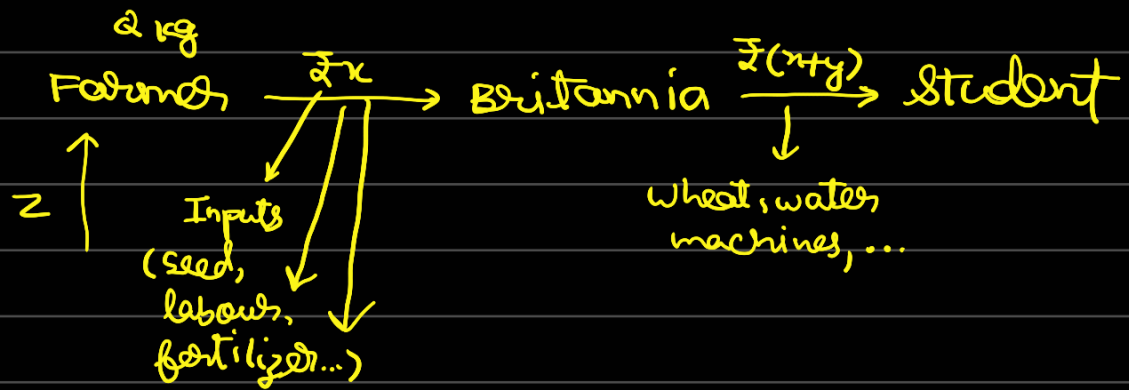


→ value-added approach



$\bar{x}(x-z)$ is value added by farmer
 $\bar{x}y$ is value added by Britannia

So Final price = $\bar{x}(z + x - z + y) = \bar{x}(x+y)$

If it was $\bar{x}(2x+y)$ → double counting will occur.

→ GDP: Total market value of all final goods and services produced within a country in a given period of time.

- Eg: of when intermediate good is considered final good:

If machine is bought and unused, it is a final good.

☆ GDP doesn't include: Poor healthcare, IMR*, illiteracy, black market, etc.
[* Infant mortality Rate]

Note: US, UK account for gambling in their GDP, but is illegal in India.

$$GDP = C + I + G + NX \quad (\text{Identity})$$

\downarrow Investment \downarrow

Consumption Govt. purchases Net exports = exports - imports

(Expenditure)

Note: Buying house \rightarrow investment

Short run: 3-5 yrs
medium run: 5-7 yrs
Long run: >7 yrs

} macro

☆ Transfer payment is like you pay something without getting back anything. This is not counted in Govt. expenditure.

☆ Subsidy is like a freebie. Incentive can be linked to factors like production, etc.