

GROSS DOMESTIC PRODUCT

Coach Burnett
AP Macroeconomics

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GROSS DOMESTIC PRODUCT (GDP)

- GDP is the market value of all final goods and services produced within a nation in a given year.
- GDP measures Aggregate Spending, Income, and Output

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COUNTED OR NOT COUNTED?

- GDP counts all final, domestic production for which there is a market transaction in that year.
- Used and intermediate goods are not counted in order to avoid double-counting.
- Non-market production is not counted.
- Underground or 'black market' activity is not counted.

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COUNTED OR NOT COUNTED?

- Which of the following are counted or not counted in U.S. GDP and why?
 - New U.S. manufactured Goodyear tire sold to Ford Motor Company
 - New U.S. manufactured Goodyear tire sold to Mr. Hess
 - Child care services provided by my sister for her neighbor's kid
 - A new Airbus A380
 - A new Boeing 787
 - New Tundra pick-up truck manufactured in Dallas, Texas by Japanese firm Toyota.

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COUNTED OR NOT COUNTED?

- Which of the following are counted or not counted in U.S. GDP and why?
 - New U.S. manufactured Goodyear tire sold to Ford Motors Corporation
 - **NOT COUNTED** (Intermediate good)
 - New U.S. manufactured Goodyear tire sold to Mr. Hess
 - **COUNTED** (final product)
 - Child care services provided by my sister for her neighbor's kid
 - **NOT COUNTED** ("underground" work)

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COUNTED OR NOT COUNTED?

- Which of the following are counted or not counted in U.S. GDP and why?
 - A new Airbus A380*
 - 'It depends' (was the plane sold to an airliner?)
 - A new Boeing 787*
 - 'It depends' (was the plane sold to an airliner?)
 - New Tundra pick-up truck manufactured in Dallas, Texas by Japanese firm Toyota.
 - COUNTED** (was made in America)

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AGGREGATE SPENDING

$$\mathbf{GDP = C + I_G + G + X_N}$$

C = Consumption

I_G = Gross Private Investment

G = Government Spending

X_N = Net Exports

= Exports (X) – Imports (M)

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CONSUMPTION

- Consumer spending on
 - Durable goods (cars, appliances...)
 - Non-durable goods (food, clothing...)
 - Services (daycare, college...)
- Consumer spending is by far the largest component of U.S. GDP. ($\approx 66 \rightarrow 70\%$ of GDP)

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GROSS PRIVATE INVESTMENT

- Spending in order to increase future output or productivity
 - Business spending on capital
 - New construction
 - Change in unsold inventories

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GOVERNMENT SPENDING

- All levels of government spending on final goods and services and infrastructure count toward GDP.
- Government transfer payments do not count toward GDP.

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NET EXPORTS

- Exports - Imports
(X-M)
- Exports create a flow of money to the United States in exchange for domestic production.
- Imports create a flow of money away from the United States in exchange for foreign production.

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AGGREGATE INCOME

- GDP measures spending and income
- Income = $r + w + i + p$ = factor payments**
- r = **Rent** (payment for land)
 - w = **Wages** (payment for labor)
 - i = **Interest** (payment for capital)
 - p = **Profit** (payment for entrepreneurship)

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RENTS

- Income received by the households and businesses that supply property resources

AKA

- Monthly rent
- Office space

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INTEREST

- Money paid by private businesses to the suppliers of money capital

– PLUS

- Savings Deposits
- Certificates of Deposit (CD's)
- Corporate Bonds

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PROFITS

- Proprietor's Income

– Net income (after taxes) of sole proprietorships, partnerships, or any other unincorporated business

- Corporate Profits

– Earnings of owners of corporations.

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NOMINAL V. REAL GDP

- Nominal GDP is current GDP measured at current market prices

– Nominal GDP may overstate the value of production because of the effects of inflation

- Real GDP is current GDP measured with a fixed dollar

– Real GDP holds the value of the dollar constant and is useful for making year to year comparisons

Real GDP is the IMPORTANT ONE!!!

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