Gross Domestic Product

- Gross domestic product (GDP) is a measure of the income and expenditures of an economy.
- It is the total market value of all final goods and services produced within a country in a given period of time.
- How much is the current GDP?

The Circular-Flow Diagram

The Measurement of GDP

GDP is:
- the market value
- of all final goods and services
- produced within a country
- in a given period of time.
What Is Counted and Not Counted in GDP?

- GDP includes all items produced in the economy and sold legally in markets.
- GDP excludes services that are produced and consumed at home.
- Caring labor, the work that is normally produced by women.
- Resale of GDP does not count it.
- Expenditures are excluded from market items, such as illegal drugs.

GDP and Its Components (1998)

<table>
<thead>
<tr>
<th>Category</th>
<th>Final (Millions of Dollars)</th>
<th>Per Person (Millions)</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>400,586</td>
<td>17,951</td>
<td>48.7%</td>
</tr>
<tr>
<td>Government</td>
<td>236,467</td>
<td>9,475</td>
<td>24.7%</td>
</tr>
<tr>
<td>Investment</td>
<td>180,467</td>
<td>7,375</td>
<td>18.6%</td>
</tr>
<tr>
<td>Consumptive</td>
<td>305,507</td>
<td>12,875</td>
<td>37.6%</td>
</tr>
<tr>
<td>Net Exports/Imports</td>
<td>252,000</td>
<td>10,100</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

GDP and Its Components

- Gross National Product (GNP)
- Net National Product (NNP)
- National Income
- Personal Income
- Disposable Personal Income

The Components of GDP

\[ Y = C + I + G + NX \]

Measuring Economic Growth

- We use real GDP to calculate the economic growth rate.
- The economic growth rate is the percentage change in the quantity of goods and services produced from one year to the next.
- We measure economic growth as we can make:
  - Economic welfare comparisons
  - International welfare comparisons
  - Business cycle forecasts
Measuring Economic Growth

- Business Cycle Forecasts
  - Real GDP is used to measure business cycle fluctuations.
  - These fluctuations are probably accurately timed but the changes in real GDP probably overstate the changes in total production and people’s welfare caused by business cycles.

Real versus Nominal GDP

- Nominal GDP values the production of goods and services at current prices.
- Real GDP values the production of goods and services at constant prices.

Real GDP and the Price Level

- Deflating the GDP Balloon
  - Nominal GDP increases because prices rise.
  - Deflating the GDP Balloon

Real GDP in the United States

- Periods of falling real GDP

This pie chart shows how Hawaii's Gross State Product is broken down.

- Notice how the visitor industry is relatively high (21%).
- Note its share of Hawaii GSP.
- Refer to comparison of USA and Hawaii GDP and GSP.

### GDP, Life Expectancy, and Literacy

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP Per Person (2000)</th>
<th>Life Expectancy</th>
<th>Literacy Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>$42,800</td>
<td>77.3</td>
<td>90.0%</td>
</tr>
<tr>
<td>Japan</td>
<td>$35,200</td>
<td>82.1</td>
<td>95.0%</td>
</tr>
<tr>
<td>Germany</td>
<td>$29,000</td>
<td>80.0</td>
<td>99.0%</td>
</tr>
<tr>
<td>Canada</td>
<td>$38,000</td>
<td>82.5</td>
<td>95.0%</td>
</tr>
<tr>
<td>Norway</td>
<td>$39,000</td>
<td>80.0</td>
<td>98.0%</td>
</tr>
<tr>
<td>Sweden</td>
<td>$36,000</td>
<td>81.0</td>
<td>98.0%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>$50,000</td>
<td>82.0</td>
<td>99.0%</td>
</tr>
</tbody>
</table>

- Hawaii GSP (1997)
- Visitor industry: 21%
- Note its share of Hawaii GSP.