GDP

Gross Domestic Product

GDP

- Gross Domestic Product: The total market value of all **final** goods and services produced within the borders of a country in one year.

- GDP is a measure of the economy's health. We expect this number to increase over time.

- GDP=C+I+G+NX
  - Consumption (by households)
  - Investment (by businesses, either through spending on items such as factories or tools or building up inventories)
  - Government (by government, duh)
  - Net exports (exports-imports)

Which category do these items belong to, C, I or G?

- Manicures
- Bread
- Cruise missile
- New factory
- Dresses
- Increase in automobile inventory
- GM automobiles being shipped to Europe

Final Vs. Intermediate Goods

- **Final Goods and Services:** Those who will be consumed by the purchaser
  - *Manicures*
  - *Bread*
  - *Cruise missile*
  - *New factory*
  - *Dresses*
  - *Increase in automobile inventory*
  - *GM automobiles being shipped to Europe*

Final Vs. Intermediate Goods

- Intermediate Goods: will be used to create final goods
  - *Window glass new cars*
  - *Lumber in a new house*
  - *Screws used in making a missile*
  - *Flour for making bread*
  - *Cloth for making a dress*

Why aren't intermediate goods counted in GDP?

– *Window glass new cars*

– *Lumber in a new house*

– *Screws used in making a missile*

– *Flour for making bread*

– *Cloth for making a dress*

– *Because they would be counted twice, once when sold to a business and once when sold to a consumer*

What's the difference between real and nominal GDP?

- Real GDP is adjusted for inflation, so we can compare one year to another.

- Nominal GDP is not adjusted for inflation, so comparing years is not useful.