SECOND SEMESTER CORE
ECO-HC-2016: INTRODUCTORY MACROECONOMICS

UNIT-1
Gross Domestic Product (GDP)
&
Measurement of Gross Domestic Product (GDP)

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Definition of Gross Domestic Product (GDP)

It is the market value of all the final goods and services produced within a country in a given time period

- **market value**: use market prices to value production
- **final goods/services**: produced for its final user, and not as a component of another good or service
- **within a country**: reason why it is called gross *domestic* product
- **in a given time period**: typical units are year, quarter, month

Measurement of Gross Domestic Product (GDP)

There are three different ways to measure GDP:

- Product Method: In this method the market values of all final goods/services produced in the economy are added up
- Expenditure Method: In this method the total expenditure of different sectors of the economy are added up
- Income Method: In this method the income generated by various factors of production are added up

Product Method

- In this method the market value of all final goods and services produced in different industries during the year is added up
- Also known as the value added method to GDP or GDP at factor cost by industry of origin.
- The items that are included in India in this : agriculture and allied services; mining; manufacturing, construction, electricity, gas and water supply; transport, communication and trade; banking and insurance, real estates and ownership of dwellings and business services; and public administration and defence and other services (or government services).

Expenditure Method

GDP by Expenditure Method includes-

- Consumption expenditure is the expenditure by households on services and durable and non-durable goods

- Investment is the purchase of new capital goods (tools, instruments, machines, buildings, and other constructions) and additions to inventories

- Government purchases is the expenditure by all levels of government on goods/services

- Net exports is the value of exports of goods/services *minus* the value of imports of goods/services

Exports are goods produced *within* India and sold to the rest of the world

Imports are goods produced *outside* India and purchased by Indian households, firms, and governments

Expenditure Method (Continued)

- Thus, according to Expenditure Method,

$$\text{GDP} = C + I + G + (X - M)$$

C: consumption

I: investment

G: government purchases

X: export

M: import

$(X - M)$: net export which can be positive or negative

Income Method

- GDP by Income Method is the sum of income generated by all the factors of production.

GDP = Wage	(Income of Labour)
+ Rent	(Income of Land)
+ Interest	(Income of Capital)
+ Profit	(Income of Firm)

Equivalence of the Three Methods of Measuring Gross Domestic Product (GDP)

- The three methods of calculating GDP yield the same result because,

National Product = National Income = National Expenditure