National Income Accounting

What Is Gross Domestic Product?

- **Gross domestic product (GDP)** is the total market value of all final goods and services produced annually in a country.
- Gross domestic product can be determined by multiplying the price of each good by the quantity produced of that good.

Why Count Only Final Goods?

- An intermediate good is a good that is not ready for use or purchase. It could be a good that is partially assembled. It could even be the components that are used in producing a final product.
- Suppose economists counted both final and intermediate goods and services when they computed GDP. Then they would be **double counting**, or counting goods more than once.

Does GDP Omit Anything?

- We do not count illegal goods and services in GDP because we do not have any records of their sale or purchase.
- Any legal transaction that is not recorded also cannot be counted. If someone is paid in cash, with no sales receipt, the transaction is not likely to be recorded.
- We do not count goods and services that are traded outside official market settings.

- The sale of used goods is not counted in GDP.
- Stock transactions and other financial transactions are also not included in GDP.
- Government payments, such as social security checks, are not exchanged for goods or services, and are also not counted in GDP.

The Difference Between GDP and GNP

- GNP is the gross national product.
- GNP is a measure of the total market value of final goods and services produced by U.S. citizens, no matter where in the world they live.
- GDP is the total market value of all final goods and services produced within the borders of the United States, no matter who produces them.