Measuring GDP

How Is GDP Measured?

- The GDP of the United States in 2005 was more than $12 trillion.
- Economists determined this number by adding up the amount spent by four sectors: household, business, government, and foreign. (See Transparency 11-1.)
  - Amounts spent by the household sector are called **consumption**.
  - Amounts spent by the business sector are called **investment**.

TRANSPARENCY 11-1: The Expenditures Made by the Four Sectors of the Economy

Sector of the economy	Name of expenditures	Definition	Examples
Household	Consumption	Expenditures made by the household sector on goods for personal use	TV sets, telephones, clothes, lamps, cars
Business	Investment	Expenditures made by the business sector on goods used in producing other goods; also includes business inventories	Tools, machines, factories
Government	Government purchases	Expenditures made by federal, state, and local governments	Paper, pens, tanks, planes
Foreign	Exports	Expenditures made by foreigners for American-made goods	Cars, wheat, computers
	Imports	Expenditures made by Americans for foreign-made goods	Cars, radios, computers

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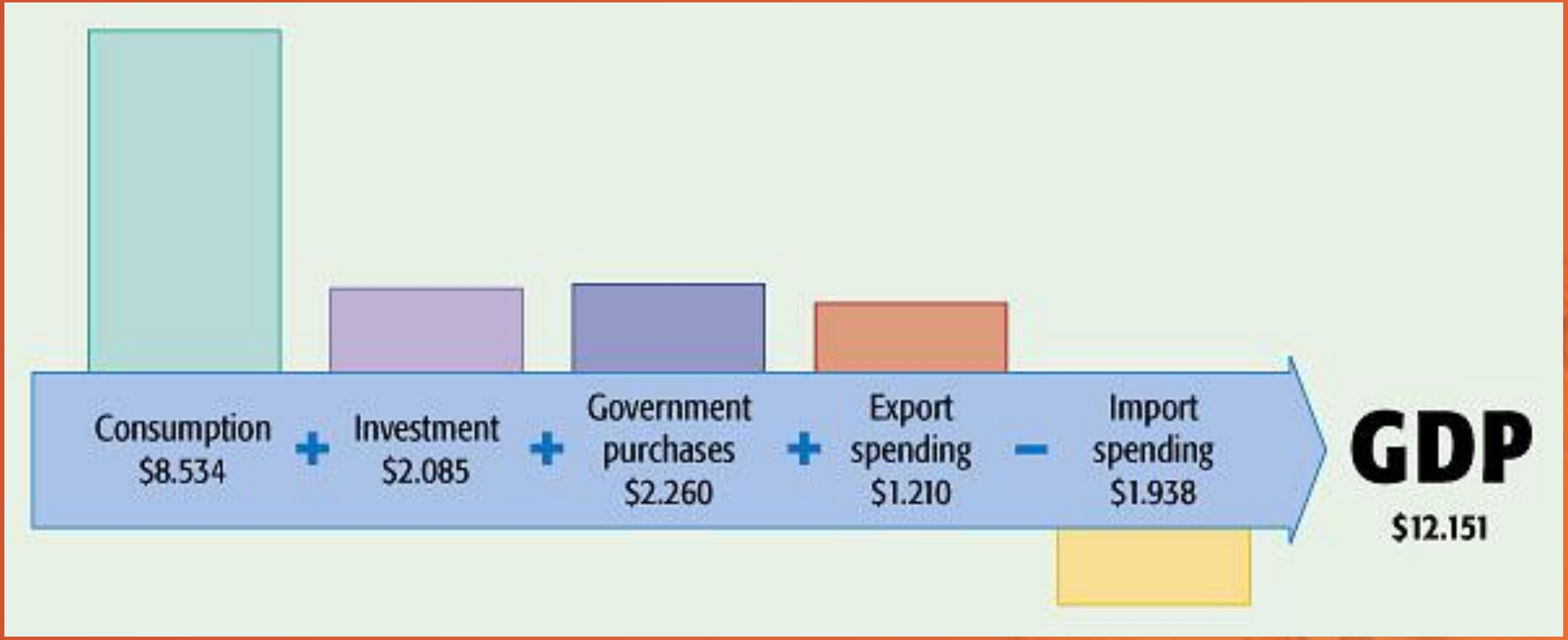
  - Amounts spent by the government sector are called **government purchases**. As mentioned before, government purchases do not include government transfer payments.
  - Spending by residents of other countries on goods produced in the United States is called **export spending**. Spending by Americans on foreign-produced goods is called **import spending**.
- All goods produced in the economy must be bought by someone in one of the four sectors of the economy. Summing the spending of the four sectors and subtracting import spending will give a good estimate of GDP. (See Transparency 11-2.)

TRANSPARENCY 11-2: Calculating GDP

Gross domestic product (GDP) is the total market value of all final goods and services produced annually in a country.

$$GDP = C + I + G + EX - IM$$



Note that import spending is *subtracted* when calculating GDP.

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Is Every Good That Is Produced Also Sold?

- Yes. The government assumes that everything that is produced is purchased by someone.

GDP Versus Quality of Life

- Greater production of goods and services is only one of the many factors that contribute to being better off or possessing greater well-being.
- All other things being equal, greater production may result in reduced leisure time or reduced family time.
- Population must be considered when comparing the GDP of two different nations:
- Per capita GDP = GDP ÷ Population.