The real gdp is an indicator of economic growth; why do some economies grow faste...

Business, Industries

GDP of a country measures the size of the economic system it practices.

This is usually the final market value of all goods and services produced by the country at a period of time. With GDP, economists can see how the economic activity of a country leads to. Will there be a progress or depletion? GDP can indicate economic growth but many still do argue about its use for measuring the standard of living by the individuals. This can be considered as a limited way for measuring the standard of living. Different country practices different type of economic systems. This means the growth of an economy differs in a time period.

It implies that the income level of a country also differs from each other. Differences can be recognized in the variation of supply of resources and even the geographic positions of a country. Many other factors may contribute in the sudden increase of economic growth, playing low in the previous rankings, is the system of government employed, the use of freedom of press, the contribution by the independent central banking procedures.

Each of this entity plays a significant part in the amplification of economic growth variances. Conversely, recognizing the accurate impact of a specific establishment is characteristically relatively complicated. Establishments as practical in the world occur endogenously, slightly than arbitrarily, so that there is an intrinsic section bias when endeavoring to characterize economic activity to its differences. Establishments furthermore are probable to come about in groups making it tricky to segregate the consequence of a specific establishment on economic development.

Also, different cultures and social practices are contributory factors which may sometimes be difficult to meet the criteria with regards to the effect of economic activity. Changes in institutions provide a basic principle and opportunity in evaluating economic performances. This can affect either in a short-term or long-term basis; bring good reputation to the economic standing of a country or the other way around. There are many contributory issues which may affect the standing of economic performance of a country. The effect can be seen in a short period of time or will take years. Transition in the economic system sometimes is the solution to seek economic growth. This means implementing new procedures in procurements, production, and another marketing strategy. To make this clear, let us site a critic about GDP of a standard measuring of standard living.

Simon Kuznets the inventor of the GDP, in his very first report to the US Congress in 1934 said: "... the welfare of a nation can scarely be inferred from a measure of national income. If the GDP is up, why is America down? Distinctions must be kept in mind between quantity and quality of growth, between costs and returns, and between the short and long run. Goals for more growth should specify more growth of what and for what. " Given the concept and functions of money, proceed to explain the process of money creation. Money creation is an important aspect in every economic system.

Money circulates in every economic system. This serves as a payment for goods and services individual purchase. But money sometimes runs short and needs for creation as well to sustain the purchasing power of an entity. The supply of money is in circulation flow which mainly supported in the following circulation by debts of: a. Private debts (like a. ortgages, loans, and others), b. Industrial and commercial debts, c. Government “ national” debts, and d.

International debt. Basically the financial system is based on “ debt based” since the procedure of acquiring debt is because of the aim of absolutely for creating and supplying money to their economies or businesses. This can be as a capital for production or expenditures.

By lending money to borrowers in a form of loans, in return any bank in the industry creates credit. This supply of money is a straight merchandise of borrowing, and a debt retains the amount of money lend in the circulation. Additionally, some obscurity is occurred in the will of paying the debt of an individual entity of the economy but this need to be settled accordingly.

The returning to the bank will provide the banking system another opportunity for lending. The new money will provide the banking system with the collateral for more lending. This results to the encouragement for loaning in banks. Since the banks holds some amount of money and the economic society is bloated with loans, the returning payments for loan becomes new deposits. This can then serve them as a basis for further loaning. Conceivably, a best enlightenment of this practice of money creation was explained by H.

D. Macleod: “ When it is said that a great London joint stock bank has perhaps ? 50, 000, 000 of deposits, it is almost universally believed that it has ? 50, 000, 000 of actual money to lend out as it is erroneously called… It is a complete and utter delusion. These deposits are not deposits in cash at all; they are nothing but an enormous superstructure of credit. ” (The Grip of Death, Jon Carpenter Publishing, 1998, pp.

11-13). During the creation of coins and money notes by the government, it is always created debt-free. This money created is spent by the government in the economic system it holds and let it circulate thereof. This money that is created are printed and produced by the governing entity with no cost at all, except to the materials it used for production. The government has no specific requirement for creating this money in different forms but the banking industry needs to supply the cash. With this, the government sells this created money, whether be it in bills or coins, to the banking system.

This is usually paid by checks and the government exchanges it to the face value in the number money. The total amount of cash which the government acquired will then be added to anything dues to the revenue has been accumulated to finance the public sector. Consequently, government create this money which is paid by checks in return by banks, and an total corresponding to the face value of money of any form, is depleted into the economy as a direct, debt-free input.

The money is created and been circulated. In the functioning of a simple economy, production generates income. Carefully explain this statement relying on the use of `CIRCULAR FLOW` diagram. Supply comes from the producing unit of the economy. And the central fact is due to scarcity of goods and of resources that is why the need for production of goods is necessary.

This forces individual entity in the economic flow and also the nation to choose what shall be produced and who shall get how much of what is produced. In the circular flow of economic activity comprises the labor and capital unit which is a vital role in the production. In order to carry on production, a business needs inputs, which is also called factors of production. The most important inputs are labor and capital as it is mentioned above.

Both have a special meaning in economics. Labor means any kind of physical or mental effort exerted in production. Capital serves as instrument of production. The factors of production are owned by individuals which are part of the circular flow of economy.

Producing this goods and services for public consumptions has an equivalent payment from the consumers. This generates income as profit. On the other hand, the labor and capital entities receives income in the form of wages and taxes. The goods purchased from business are combines with labor hired to produce the public goods using the capital at hand. Now in addition, business get money for goods sold to the government and also makes payment. People get money by working for the government and also make tax payments. Governments receive revenues from taxes from households and firms.

The government income from taxes is then used in return to the public projects like infrastructures and others. This shows how important each entity in the circular flow contributes to the continued cycle of economy. As we know now that the supply comes from the producing units. How much they produce and how much they have to charge for it, is related to their cost of production.

Over the long run, the price of a good must cover cost, or the production will not continue. One must consider the factor costs, production methods, scale of production and the rate of operation in determining appropriate production of goods. Economic profit or income may be either positive or negative – this means of positive if price is above costs, negative if price is below cost. The principle that a business should earn enough to cover the cost of all factors, owned of purchased, is not just a matter of good bookkeeping. It economics, the most efficient way to produce is that which involves lowest money cost per unit of output. The idea that the most efficient production method depends on factor prices helps to explain many familiar facts of life. So it is not surprising that producers have responded by shifting toward methods involving more capital and less labor.

In return this economic activity is bounded by the fact that the consumption of this produced goods are limited by income. A household working in a firm and earns low income while the market price for the individual basic needs are high in the market. There is no equilibrium in the process. This means only two things: the household needs to look for additional income to sustain his basic needs purchase and the produced goods will not be sold in the market due to high price and soon it will affect the income of the producers. There should always be an equilibrium or equivalent amount in production and income.