

# The connection of gdp and the state of the economy

[Literature](#), [Russian Literature](#)



The Connection of GDP and the of the Economy The Connection of GDP and the of the Economy Introduction National income is a measure of the money value of goods and services becoming available to a nation from economic activities. The national income determines the state of economy of any given country (Bos team, 2002). The state of a country's economy can be identified by a number of different types of economic statistics or indicators such as GDP, GNP, NNP, RGNP and NGNP (Facstaff Team, 2010). As an aggregate measure of total economic production for a country, GDP represents the market value of all goods and services produced by the economy during the period measured, including personal consumption, government purchases, private inventories, paid-in construction costs and the foreign trade balance excluding net income from abroad (Ryan, 2011). As the broadest indicator of economic output and growth, GDP provides an overall picture of a country's economic state and is viewed as the indicator of a country's economic state at any given time. As a matter of fact, the World Bank has termed GDP as the main criterion for classifying economies. A country's GDP is connected to the state of a country's economy due to the fact that it to a large extent determines the standards of living amongst the citizens of a country. Additionally, it indicates the rate of unemployment and growth of the economy which in real sense means capacity expansion (Ryan, 2011). GDP as a measure of living standard The accuracy of the measurement of the standard of living in an economy cannot be relied upon on the measure of GDP; however, various economists have argued that increased production capacity enhances the living standards of the citizens implying that a high GDP translates to a higher living standards amongst the

citizens. An increase in GDP per capita income enhances the likelihood of more goods and services being available to consumers and the enhanced willingness and ability of the consumers to purchase them (Ryan, 2011) GDP and international comparison Since the measurement of GDP is frequently done in all countries, various economic trends can be easily identified and appropriate measures in terms of fiscal and monetary policies put in place. Additionally, the measure of GDP can be used to measure the living standards of different countries especially by international organizations like the United Nations to determine the level of aid required (Instruct team, 2003). Despite GDP being a tool for measurement of the living standards, economists have raised various reservations related to it. These include the value of unpaid work or work in progress which is not taken into consideration. Additionally, the growth in national income does not necessarily mean a rise in the living standards of the citizens as the income may be concentrated on a small percentage of the population. Over time prices of goods and services change affecting the index of retail prices accompanied with general decline in the quality of life as a result of non-monetary aspects like increase pollution and poor working conditions (Ryan, 2011). GDP and Economic Growth The measure of GDP is an indicator of the general economic activity exemplified by the level of production of good and services. This implies that a high GDP means low unemployment rates while the converse is true. A drop in production of goods and services implies a rise in unemployment rates arising from retrenchment of employees to minimize on expenses and shutting down of many companies to avoid losses (Till, 2012). Comparing the unemployment rate of Canada and the changes

in the GDP over five years justifies this correlation. Okun's law, which states that the levels of GDP are driven by the principles of demand and supply and must, therefore, be accompanied by a corresponding increase in the level of productivity and employment in order for equilibrium to be achieved, gives a precise explanation of this relationship. Thus, it is evident that the value of real GDP is an indication of the level of economic growth in a country and is measured through comparison of quarterly or annual growth rates. The annual growth rate in the level of GDP reflects the percentage change in the value of GDP between one quarter and a similar quarter of a previous year of a country (Macroeconomics Team, 2011). When the Real GDP is positive, it implies that the economy is experiencing growth while a negative GDP growth reflects a decline in the growth of an economy. When an economy experiences a decline in GDP decline in two consecutive quarters, it indicates recession. A pattern arising from examination of the trends in the growth rates of an economy's GDP over time communicates whether the economy is growing or declining. The trend observed over the last five years in Canada thus indicates the level of economic growth over the years. Conclusion From the study, it is quite obvious that the rate of GDP is a good indicator of the state of an economy, more so, on the measure of productivity in the economy. This can be attributed to the relationship between GDP and economic growth, measure of living standards and GDP and international comparison all which determine the state of the economy. We to a small extent and with various assumptions, we are justified to conclude that the growth of a country's GDP is an indicator of improving quality of live as it is a measure of increasing productivity from the production of goods and

services. Therefore, the higher the rate of GDP, the better the state of the economy and hence a better standards of living for the citizens (Macroeconomics Team, 2011). References Bos team. (2002, September 12). How do we measure standards of living? Retrieved from <http://www.bos.frb.org/education/ledger/ledger03/winter/measure.pdf> Ryan, B. (2011). Economic Indicators: Gross Domestic Product (GDP). Retrieved from <http://www.investopedia.com/university/releases/gdp.asp> Facstaff Team. (2010). Measuring GDP and economic growth. Retrieved from <http://facstaff.uww.edu/ahmady/courses/econ202/ps/sg3.pdf> Instruct team. (2003). Measure GDP and Economic Growth. Retrieved from <http://instruct.uwo.ca/economics/020-571/macro/pdf/ch20.PDF> Till, C. (2012, March 28). Gross Domestic Product: An Economy's all. Retrieved from <http://www.imf.org/external/pubs/ft/fandd/basics/gdp.htm> Macroeconomics Team. (2011, April 17). The Good, the Bad and the Ugly - Update on some Macro situations. Retrieved from <http://macronomy.blogspot.ca/2011/04/good-bad-and-ugly-update-on-some-macro.html>