

Gdp gnp – college essay



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What is the difference between GDP and GNP? Which is more important in evaluating how healthy our economy is and why? If GDP of a nation is greater than GNP, what does it tell you? •GDP (Gross Domestic Product) is the market value of everything produced within a country; GNP (Gross National Product) is the value of what's produced by a country's residents, no matter where they live. •GDP is a better indicator of evaluating how healthy the economy. We can take it as the national output or income.

Thus GDP divided by population could be referred to as the per capita income. A common equation used to calculate GDP is as follows: $GDP = \text{Consumption} + \text{Government Expenditures} + \text{Investment} + \text{Exports} - \text{Imports}$

When GDP declines for two consecutive quarters or more, by definition the economy is in a recession. Meanwhile, when GDP grows too quickly, and fears of inflation arise, it is an indication that economy is in expansion. Thus GDP is a better indicator of the health of an economy. Normally, you would see GNP higher than GDP, as it is your total domestic production (GDP) + what you produce outside your country. The total of domestic + domestically-owned foreign production is GNP. If GDP was higher than GNP, then the foreign-production element must be negative. So, perhaps if a massive earthquake destroyed all your foreign factories and caused huge financial losses, you might have negative foreign production, and therefore GDP would be greater than GNP. However it is very unlikely that the GDP of a country will be greater than its GNP.