National income and product accounts discussion

Business

Running Heading: Project Part 2 Project Part 2 Business Economics GM545 [Academic Term] [Email Address] CHAPTER # 15 QUESTION # 14: One of the most used method of determining the overall performance and output of the economy is the National Income and Product Accounts (NIPA). With the help of this method, the economists can interpret the living standard of a particular economy or country (Mankiw, 2011). This method of using national income accounts for evaluating the performance of the economy and interpreting the standard of living have some limitations. For instance, it does not includes the most of the non market transactions. It does includes the work done by the individuals at personal level. For example, if the overall Gross Domestic Product (GDP) witnesses an increase if the cleaning work is done by the maid, whereas if the same work is done by the person himself it has no affect on the overall Gross Domestic Product (GDP) of the economy. There are several other similar activities like babysitting, maintenance of the car and other vehicles, taking care of lawn, etc (Stone, 2011). Along with this, another limitation of the national income accounts is that it does not give consideration to the different environmental factors and elements (Stone, 2011). All of the economic activities are directly related with the natural world and environment. Larger portion of the government spending along with the consumer and private consumption is being spend in order to protect the overall environment. However, the method of national income and product accounts does not incorporate these environmental factors either positive or negative on the economic activity and standard of living (Stone, 2011). In order to ensure that the national income is a better measure of living standard and economic activity it is essential to incorporate the environmental impacts and non market transactions.

CHAPTER # 25 QUESTION # 7: It is relatively easier to indulge in free trade between states in the United States as compare to the free trade between different countries. These is significant difference in the both concepts. Free trade is based on the concept that all inputs should be shifted towards the country or region where these inputs can be converted into outputs in more effective and efficient manner. This results in the concepts of comparative advantage and absolute advantage (Stone, 2011). The inputs can be categorized as capital, labor, material, infrastructure, environment, etc. It is difficult to relocate these inputs within the countries in comparison to the states. There is no legal restriction associated with the movement of different inputs from one state to another. Along with this the output of all states contributes towards one common GDP of the US economy. This results in almost no restrictions or limitations on the concept of free trade among the states of United States (Mankiw, 2011). In the free trade among countries, the resources are shifted to different country or economy hence resulting in different complications and restrictions. Furthermore, the overall cost associated with the free trade is more in the case of the inter country trades as oppose to the inter states trade. This cost accounts for the transportation, operations, communication, and other transactions (Mankiw, 2011). There are different bodies involved in the process of free trade between the countries, hence it is easier to conduct free trade between states in the United States. Therefore, there is free trade between the states but not necessarily between countries. CHAPTER #25 QUESTION # 14: There have been different arguments against the fair trade and as a result different barriers have been placed in order to restrict the free trade. One of the most famous reason given in the opposition of the free trade is the protection of the local economy and provide local people with more job opportunities. For this purpose different protectionist barriers have been placed (Stone, 2011). However, it is important to acknowledge that this is not the actual case. The trade protection and protectionist barriers are not able to protect the American jobs or the economy. This believe that the import from other countries results in damaging the local industry and thus negatively impact the job market, is only one side of the argument. Imports also create and increase jobs in the industries which are importing products. The imports from other countries may result in changing the consumption of the employment but there is very minimal impact on the overall employment level (Mankiw, 2011). If US will not import from other countries and trade partners it will eventually destroy the export industry of those countries and they will not be able to import products from US, which will in turn destroy the US economy. Also there are high chances of reprisal and revenge from other trade partners and they will restrict imports from US which will negatively affect the overall economy of the world. It is also important for the country to import as in long run the imports facilitates the exports of the country. The money paid to other countries through import will be their income and will be spend on the exports of US in long run (Mankiw, 2011).

REFERENCES Mankiw, N. G. (2011). Essentials of Economics. Mason, OH, USA: South – Western Cengage Learning. Stone, G. (2011). Core Economics. New York: Worth Publishers.