Economy

GDP and its components Gross domestic product (GDP) is defined as the market value assigned to all final products that are made within a country in a specific period of time (Mankiw 208). In a specified period of time, expenditure in a country can manifest itself in an array of ways. Families are spending on the consumption of goods, whereas large corporations are acquiring expensive resources such as a construction company buying a bulldozer. GDP takes into accounts all these diverse types of spending that are taking place in a country (Mankiw 208). In order to gain an understanding of how the economy is utilizing scarce resources, economists delve into classifications of GDP and its effects on the several forms of spending occurring in the country. The GDP is divided into four main components. These include consumption, investment, government purchases and net exports. All these components when added together equal the GDP. The relationship between GDP and its four components can be expressed in the form of an equation as follows:

$Y = C + I + G + NX$

Where Y denotes GDP,

C denotes consumption

I denotes investment

G denotes government purchases

NX denotes net exports

This equation represents an identity (Mankiw 208). This means that the variables of the equation are going to decide on the validity of the equation. In the equation, all sorts of expenditure that is done in the country are classified into either of the components of the GDP.

Consumption

The largest part of the GDP is consumption purchases and constituted 70% of the GDP in the US in 2007 (Mankiw 211). They entail the expenditure of the household on consumer goods and services in a particular period. Consumption purchases entail a flow concept (Gwartney et al. 153). The services and goods that the consumers opt for are mostly nondurable in nature. Expenditures done on food, clothing, entertainment and medical services are part of consumption purchases. These products are not very long-lasting and are used up in a short span of time. On the other hand, durable products such as cars form only one-ninth of the total consumption purchases and are used up over a long period of time.

Gross Private Investment

Investment entails the production of capital goods that are going to cause a flow of future services. They are not consumed over a short period of time and include the investments of companies into machineries and equipments as well as houses. Gross private investment can be carried out for the purpose of replacing old machinery or for adding net additions to the existing pool of capital assets (Gwartney et al. 153). Net investment is crucial in knowing the future scope of productivity of the economy. In 2007, they equaled to 15% of the GDP in the US (Mankiw 211).

Government Consumption

In the US, this attributed to about 19% of the total GDP in 2006 (Gwartney et al. 154). Government expenditures encompass the spending on goods and services by local, state and federal governments (Mankiw 210). Government consumption gives an idea of the salaries that are being paid to the government workers, and includes the spending done on public works.

Net Exports

Net exports refer to the spending that is done by foreigners on goods that are produced domestically, minus the spending down by the natives on goods that have been imported (Mankiw 210). So net exports is equal to exports minus imports. According to the US Department of Commerce, net exports constituted -5% of the total GDP in 2007 (Mankiw 211).

Works Cited

Gwartney, James D., Richard L. Stroup, Russell S. Sobel and David MacPherson. Economics: Private and Public Choice. 12th ed. Cengage Learning, 2008. Print.

Mankiw, N. Gregory. Principles of Macroeconomics. 5th ed. Cengage Learning, 2008. Print.