

Gross domestic product essay

[Business](#), [Marketing](#)



Introduction

Conceptualizing economic concepts is crucial to policy makers and other interested parties such as economics scholars. Ideally, policy makers should sufficiently understand macroeconomic issues such as gross domestic product (GDP), unemployment, inflation, balance of payment, and exchange rate. Although, all macroeconomic variables are equally significant, this paper will lay emphasis on gross domestic product.

Discussion

Despite the many definitions of GDP, Salvin (2010) provide two key definitions. First, GPD has been defined as the expenditure made by the country on the final goods and services that have been produced within the country during the year. Based on his definition, it can be observed that the expenditure has been valued at market prices. Alternatively, Salvin defines GDP as the aggregate value of all the finished goods and services, which are produced in a country during a period of one year (Salvin, 2010).

According to Salvin (2010), a country's GDP can be measured using the expenditure approach or the flow-of-income approach. The expenditure approach, in this case, entails summing up all the expenditures made on final goods and services. As provided in his book, $GDP = C + I + G + X_n$, such that C= consumption by individual economic units, I= private and public Investment, G= Government expenditure and X_n = net exports. When computing GDP, Salvin points out two critical issues that should be avoided, which include multiple counting and the inclusion of transfer payments in the final tally (Salvin, 2010). In order to avoid multiple counting, Salvin

introduces a third approach; the value added approach, which is the net market value of a firm's output.

Nominal GDP should not be confused with real GDP. Salvin (2010) reveals a considerable difference between the two national statistics. According to him, nominal GDP is often computed as market prices while the computation of real GDP is based at the prices some base year (with stable prices). Given that the real GDP takes into account the effects of inflation, as opposed to nominal GDP, is computed using the formula: $\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{GDP Deflator}} \times 100$.

Although there are many uses of GDP statistics, according to Salvin (2010), the key reason why governments compute GDP statistics is use it to compare living standards in different nations or in one nation over time. In order to compare changes in a nation's economic well-being, per capita real GDP (real GDP/Population) is first computed for different periods of time. An increase in per capita real GDP from one period to another implies an increase in a nation's living standards over time (Salvin, 2010). In comparing living standards among different countries, a selected number of countries identified and their per capita real GDP computed for a particular year. A nation with the highest per capita real GDP value is said to have the highest standards of living. Using the per capita real GDP of 10 selected countries, in 2005, Salvin demonstrates Luxembourg as having the highest standards of living compared to the other 9 countries, which include Norway, Denmark, Japan, Germany, United Kingdom, Ireland, United States, Sweden and Switzerland (Salvin, 2010).

Conclusion

Based on above literature, it is precise that there exist a number of economic variables (statistics) that are of great concern by economists and policy makers in country. One of them is GDP statistics, which is usually computed through using the expenditure approach, flow-of-income approach and value-added approach. In order to take into consideration the effect of inflation include in the nominal GDP values calculated at market prices, most governments tend to compute real GDP using prices of a base year. According to Salvin, governments compute GDP statistics for one key reason: to compare living standards in different nations or in one nation over time.

References

Slavin, S. L. (2010). Economics. New York: McGraw-Hill/Irwin.