The gross domestic product explaned

The Gross Domestic Product ExplainedThe Growth Domestic Product simply known and referred to as the GDP; is the primary indicator that is used to measure the health and wealth of a country??™s economy. The GDP is calculated by the Bureau of Economic Analysis and is usually calculated using two different methods (Word IQ, 2011). The first method is the Income method: adding any revenues that a business or government organization earns within a year??™s time does this.

The second method is the Expenditure method: this method uses the monies that a business or government organization spends within the same allotted time, usually one year (Trading Economics, 2011). The Bureau of Economic Analysis does not factor into the final projected numbers the exchange rates, the inflation, trade policies and imports or income earned from any U. S companies or an individual located outside the country.

By using the equation of:??? Y= GDP??? C= consumption??? I= investments??? G= goods and services??? NX= net exportsBy adding these various amounts together and factoring in the region in which the country is located as well as the population, the Bureau of Economic Analysis can decide the estimate of a particular country??™s economic rating (BEA, 2011). These figures also help predict any expected growth or decline that a country may experience over the next few years. Many individuals as well as potential investors use the projected calculations to make decision about where and when to invest.

The GDP can also allow an individual to prepare for an economic downfall. By reading and understanding the GDP, a person could possibly predict an

upcoming financial decline and then become better equipped to handle the situation (Trading Economics, 2011). The main factor contained in the GDP that is useful to an everyday individual is the projections that involve interest rates. When the GDP shows that a country is experiencing an economic growth then this can cause interest rates to increase, therefore an individual may pay a greater amount of interest for any loans, while if the country is showing a decrease economically then this is would most companies would consider lay-offs and the country will experience a high unemployment rate (Trading Economics, 2011). Although there are many contributing factors to the gross domestic product, the main three that can affect the entire country is:??? Natural disasters??? Unemployment??? Banking systemsIn the early years of 2000, America was experiencing some of the worst decrease in the GDP. The GDP had decreased by over 4. 2% within two years, which had not been done since the great depression.

By 2003, the economy seemed to be on the road to financial recovery but it was short lived when in 2005 Hurricane Katrina made landfall in New Orleans (BEA, 2011). Since the GDP is divided into quarters and each year contains four quarters, the projections are quite accurate. Between 2003 and 2010, the American economy has showed a decrease of 2% each quarter, this being the reason that in 2009, the Congress passed the Economic Stimulus package in an effort to help jump start the economy and hopefully help America by enable a speedy recovery form the banking system collapse in 2006 (BEA, 2011). As for our future, the Federal Reserve has projected that by the end of 2011 the GDP will have a slow but steady growth rate. The calculations are between 3% and 3. 5%. The Bureau of Economic Analysis

and the Board of Governors also agree with these projections. However, as we have yet to experience any significant changes to our current unemployment rate or consumer spending, it leaves me to question the projections.

Reference: Bureau of Economic Analysis. (2011). National Income and Product AccountsGross Domestic Product: Second Quarter 2011 (Advance Estimate)Revised Estimates: 2003 through First Quarter 2011.

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