

# Cathrina may c. villaflores

Finance, Financial Analysis



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Assignment: Task: 1. Determine the current and historical growth of U. S. real gross domestic product. Real gross domestic product -- the output of goods and services produced by labor and property located in the United States -- increased at an annual rate of 2. 2 percent in the first quarter of 2012 (that is, from the fourth quarter to the first quarter), according to the "advance" estimate released by the Bureau of Economic Analysis. In the fourth quarter of 2011, real GDP increased 3. 0 percent. The increase in real GDP in the first quarter reflected positive contributions from personal consumption expenditures (PCE), exports, residential fixed investment, nonresidential fixed investment, and private inventory investment that were partly offset by negative contributions from federal government spending and state and local government spending. Imports, which are a subtraction in the calculation of GDP, increased. The deceleration in real GDP in the first quarter primarily reflected decelerations in private inventory investment and in nonresidential fixed investment that were partly offset by accelerations in PCE, in exports, and in residential fixed investment and a deceleration in imports.

2. Identify the components of the measurement of the nation's gross domestic product. In the United States, the GDP and the national accounts estimates are fundamentally based on detailed economic census data and other information that is available only once every five years. The challenge lies in developing a framework and methods that take these economic census data and combine them using a mosaic of monthly, quarterly, and annual economic indicators to produce quarterly and annual GDP estimates. For example, one problem is that the

other economic indicators that are used to extrapolate GDP in between the five-year economic census data—such as retail sales, housing starts, and manufacturers shipments of capital goods—are often collected for purposes other than estimating GDP.

Three Ways to Measure GDP

I. Value-added (or production) approach

2005 share (percent)	Gross Output (gross sales less change in inventories)	183.5	Less: Intermediate inputs	83.5	Equals: Value added for each industry	100.0
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II. Income (by type) approach

Sum of:	Compensation	56.6	Rental income	0.3	Profits and proprietors' income	17.6	Taxes on production & imports	7.4	Less: Subsidies	0.5	Interest, miscellaneous payments	5.5	Depreciation	12.9	Equals: Total domestic incomes earned	100.0
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III. Final demand (or expenditures) approach

Sum of:	Consumption of final goods and services by households	70.0	Investment in plant, equipment, and software	16.7	Government expenditures on goods and services	19.0	Net exports of goods and services (exports imports)	5.7	Equals: Final sales of domestic product to purchasers	100.0
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3. Assess the relationship of real GDP data, the indexes of economic indicators, and business cycles. Fluctuations in the overall rate of national economic activity with alternating periods of expansion and contraction; these vary in duration and degrees of severity; usually measured by real gross domestic product (GDP). An increase in real output as measured by real GDP or per capita real GDP. A recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income, and other indicators. A recession begins when the economy reaches a peak of activity and ends when the economy reaches its trough. Between trough and peak, the economy is in an expansion. Because

a recession is a broad contraction of the economy, not confined to one sector, the committee emphasizes economy-wide measures of economic activity. The committee believes that domestic production and employment are the primary conceptual measures of economic activity.

----- Leading Economic Indicators

Country/Region | Change | Date | Australia | 1. 4% | 19 Jun. 2012 | China | 1. 1% | 25 Jun. 2012 | Euro Area | 0. 3% | 28 Jun. 2012 | France | 0. 1% | 18 Jun. 2012 | Germany | 0. 1% | 20 Jun. 2012 | Japan | 1. 1% | 10 Jul. 2012 | Korea | 1. 2% | 12 Jul. 2012 | Mexico | 0. 7% | 25 Jun. 2012 | Spain | 0. 6% | 11 Jul. 2012 | U. K. | 0. 8% | 13 Jul. 2012 | U. S. | 0. 3% | 21 Jun. 2012 |

----- Short Answer Essay Question: 1. If gross domestic product increases by 10 percent over a year, are we better off?

Why or why not? The answer depends upon what is happening to prices and what is happening to population. If prices and population together are rising by more than 10 percent per year, than we, on average, are worse off. We have fewer goods and services per person. If the nation's real per capita GDP increases, we may be " better off. And there is really a great impact on the economy itself if there is always an increase over a year. And it is a big help to many people who are living inside the community. Extended Activity What are the areas of growth and decline? Was the data (growth rates) consistent throughout the period of time? Annual changes in quantities and prices are calculated using a Fisher formula that incorporates weights from two adjacent years. (Quarterly changes in quantities and prices are calculated using a Fisher formula that incorporates weights from two adjacent quarters; quarterly indexes are adjusted for consistency to the annual indexes before

percent changes are calculated.) For example, the 2007-08 annual percent change in real GDP uses prices for 2007 and 2008 as weights, and the 2007-08 annual percent change in GDP prices uses quantities for 2007 and 2008 as weights. These annual changes are "chained" (multiplied) together to form time series of quantity and price indexes. Percent changes in Fisher indexes are not affected by the choice of reference year. (BEA also publishes a measure of the price level known as the implicit price deflator (IPD), which is calculated as the ratio of the current-dollar value to the corresponding chained-dollar value, multiplied by 100. The values of the IPD are very close to the values of the corresponding "chain-type" price index.) Index numbers of quantity and price indexes for GDP and its major components are presented in this release in tables 5 and 6. Percent changes from the preceding period are presented in tables 1, 4, 7, 8, and appendix table A. Contributions by major components to the percent change in real GDP