Week 8, Chapter 12 - <u>GDP, income and economic growth</u>

Four major components of expenditures in GDP

- Consumption expenditures [C]
    - Made by households for goods and services
- Investment expenditures [I]
    - Made by firms for new plant, equipment, buildings and inventories
    - By households for new residential construction
- Government purchases [G]
    - Made by federal state and local governments for goods and services
- Net Exports [NX] = exports - imports'

GDP = C + I + G + NX

GDP measures a country's production of goods and services which is equal to income

- More goods and services = more income
- Less goods and services = less income

Why is GDP an imperfect measure of economic well being?

- Does not include all production
- Does not include value of leisure
- Is not adjusted for negative effects
- Does not inform us as to how GDP is distributed

Nominal GDP - the market value of final goods and services evaluated at current prices
Real GDP - the volume of final goods and services holding prices constant

Potential GDP - level of GDP if all firms are producing at capacity (potential GDP is not equal to real GDP due to business cycle fluctuations

Increase in real GDP = Increase in labour productivity

Net domestic product (NDP)

- Calculated by measuring GDP and subtracting the value of depreciation on capital equipment

Gross National Income (GNI)

- Australia's GDP plus income generated overseas by Australian residents and firms, minus the income generated in australia by non-residents and foreign firms