

Tracking the Macro Economy 1

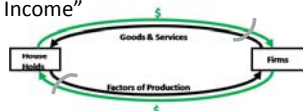
Gross Domestic Product

GDP

The Basic Definition

Recall the Simple Circular Flow:

- Track Volume of Activity
 - Measure "Total Spending"
 - Measure "Total Income"



- Note:
 - For Every Buyer There is a Seller
 - Every Buyer's Dollar Spent is a Dollar of Income for Some Seller
 - Total Spending = Total Income**
 - Can Track Either: Get Same Result

Consider **Complete** Circular Flow:



- More Complicated
- More Flows
 - Still Spending & Income

- Same Conclusion:
 - Total Spending = Total Income**

Core Macro Concept: GDP

- **Gross Domestic Product (GDP)**
 - Measure of Spending & Income
 - Broadest Measure: Most Aggregated
 - Indicator of “Total Activity” ... “Total Action”
- **Definition of GDP:**
 - “The total market value of all final goods and services produced within a country in a given period of time.”

Deconstructing Definition of GDP:

- “GDP is the **Market Value** . . .”
 - Output is Valued at Market Prices
 - Only Output Exchanged in Markets Count
- “. . . Of All **Final** . . .”
 - Only “Final Goods” Count (Car)
 - “Intermediate Goods” Ignored (steel, rubber, glass)
 - No Double Counting
- “. . . **Goods and Services** . . .”
 - Includes Tangible Goods (Food, Clothing, Cars)
 - Intangible Services (Haircuts, Car Repair, Dr. Visits)

Deconstructing Definition of GDP:

- “. . . **Produced** . . .”
 - Current Production (New Car)
 - Previously Produced Not Counted (Used Car)
- “. . . **Within a Country** . . .”
 - Production Within Geographic Borders
 - Location Matters, Not Ownership
- “. . . **In a Given Period of Time**”
 - Production During a Specific Interval of Time
 - Usually a Year or a Quarter (three months)

Wrap Up:

- GDP is the Biggest Single Measure
- Aggregate Identity:
 - Total Spending = Total Income
- Definition of GDP:
 - “The total market value of all final goods and services produced within a country in a given period of time.”
