

# GDP Notes

- 1  **Output: GDP**  
Measuring a Nation's Wealth
- 2  **GDP & GNP**
  - GDP = gross Domestic Product
    - Measures productivity within a nation's boundaries
  - GNP = Gross National Product
    - Measures productivity of a nation's citizens
- 3  **Per Capita**
  - *Real* GDP divided by population
  - Shows average income per person
  - Does NOT show unequal distribution of wealth (Lorenz Curve does that)
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  - 1 • *Real* GDP Per Capita - 1993:
    - World Average = 4,740
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    - Denmark = 26,510
    - UK = 17,970
    - Germany = 23,560
    - Russia = 2,350
    - Rwanda = 200
    - China = 490
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  - 1 • GDP ignores things produced but not sold
    - Child Care
    - Meals
    - Auto Care
  - 2 • GDP Does not measure
    - Value of leisure time
    - Illegal productivity
    - Secondary sales
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  - GDP does not measure changes in production year to year
    - Ignores Inflation
  - Changes in *Real GDP* does reflect true production changes year to year
  - Changes *Real GDP* reflect a nation's Standard of Living
- 7  **GDP: Nominal vs Real**
  - 1 GDP not adjusted for inflation
    - 2001 1<sup>st</sup> qrt. = \$ 10,025 Billion
    - 2001 3<sup>rd</sup> qrt. = \$10,096 Billion
  - 2 GDP adjusted for inflation
    - Real GDP*
    - 2001 1<sup>st</sup> qrt. =
      - \$ 9,882 Bill
    - 2001 3<sup>rd</sup> qrt. =
      - \$ 9,835 Bill
- 8  **GDP NOT meant to measure economic well-being!**
  - Economic activities between nations differ

- Ignoring things not going through a market (such as Barter), many things in other nations are not included in their GDP!  
– Ex: Africa's GDP is about \$250 per year!

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Real GDP is one factor in evaluating a nation's well-being: but mainly when comparing year to year with itself!

If Real GDP increases faster than population, then the nation, as a whole, is getting richer!

10  **Growth**

- Between Rome (circa 100 AD) and the dawn of the Industrial Revolution (circa 1800 AD) living standards were relatively unchanged!
- America, between 1900 and 2000, has had its standard of living increase by a factor of more than 7! (Americans in 1900 consumed one seventh of what we consume today!)

11  **The Key to Growth**

- Productivity growth is (almost) everything in the long run!
- Only rising productivity can raise the standard of living

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Major contributors to a nation's well-being:

- Reduction of poverty
- Increase of leisure time
- Financing:
  - Health Care
  - Education
  - Environmental Improvement
  - The Arts

13  **Productivity**

- When Labor Productivity is up, people produce more and better products
- Per capita Real GDP only rises when production increases exceed population increases

14  **Improving Productivity**

- Quality of Human Resources
  - Education
  - Training
  - Skilled workers

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- Quantity and Quality of Capital Resources
  - New capital increases productivity
  - Capitalism system offers incentives to increase Capital

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- Technological Change
  - Innovations contribute to efficiency of production, thus increasing productivity
  - Ford's assembly line, Computers, et cetera

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