

EC132.03
Principles of Macroeconomics

Boston College

Tuesday, January 26

Reminders

1. Please complete and hand in your discussion section sign-up sheet this Thursday (January 28). Extra copies are available at <http://www2.bc.edu/~irelandp/ec132.html>
2. First problem set due Friday, January 29 at 9am.
3. Read Ch.23, “Measuring a Nation’s Income.”

Measuring GDP

Gross Domestic Product (GDP) =

The market value of all final goods and services produced within a country in a given period of time.

Measuring GDP

Gross Domestic Product (GDP) =

The **market value** of all final goods and services produced within a country in a given period of time.

Because “you can’t add apples and oranges.”

Measuring GDP

Gross Domestic Product (GDP) =

The market value of **all** final goods and services produced within a country in a given period of time.

GDP attempts to be a comprehensive measure of a nation's income.

Measuring GDP

Gross Domestic Product (GDP) =

The market value of all **final** goods and services produced within a country in a given period of time.

Excludes intermediate goods to avoid double counting.

Measuring GDP

Gross Domestic Product (GDP) =

The market value of all final **goods and services** produced within a country in a given period of time.

Includes services as well as goods.

Measuring GDP

Gross Domestic Product (GDP) =

The market value of all final goods and services **produced** within a country in a given period of time.

Includes new cars and homes but not used cars and preexisting homes.

Measuring GDP

Gross Domestic Product (GDP) =

The market value of all final goods and services produced **within a country** in a given period of time.

A Canadian works in the US = US GDP.

A US citizen works in Canada = Canada's GDP.

Measuring GDP

Gross Domestic Product (GDP) =

The market value of all final goods and services produced within a country **in a given period of time.**

A quarter (3 months) or a year.

Components of GDP

The national income accounting identity

$$Y = C + I + G + NX$$

C = consumption

I = investment

G = government purchases

NX = net exports

Components of GDP

$$Y = C + I + G + NX$$

Spending (by households) on:

- Durable goods.
- Nondurable goods.
- Services.

Components of GDP

$$Y = C + I + G + NX$$

Spending (mostly by firms) on:

- Capital equipment (machines, tools).
- Structures (factories, office buildings).
- Inventories (goods produced but not yet sold).
- New homes purchased by households.

Components of GDP

$$Y = C + I + G + NX$$

Inventory investment:

- Ford builds a car in 2009, but it doesn't sell until 2010.
- I goes up in 2009.
- C goes up in 2010 but I goes down in 2010.
- Y goes up in 2009 but not in 2010.

Components of GDP

$$Y = C + I + G + NX$$

Spending by federal, state, and local governments on:

- Goods and services.
- Salaries of government workers.

Does not include **transfer payments** like social security, unemployment benefits.