

Measuring the GDP

While there are multiple methods for measuring GDP, theoretically all of these methods yield the same result. In reality calculating the GDP for the U.S. using the expenditure method equals \$9.96 but the value-added method (used to calculate the GDP per industry) equals \$9.82 trillion.

EXPENDITURE METHOD

Measures GDP using the total market value of final goods and services produced within a country's borders during a year. "Final goods" does not include the price sold by a producer nor the price sold by the distributor. This methodology counts only the final sale to the person who consumes it.

INCOME METHOD

Measures GDP by summing the payments made to the owners of the land and machinery/buildings as well as the labor used in production (similar to the method used to calculate GNI). This method equals the GDP calculated using expenditures if you subtract taxes and government subsidies on products.

VALUE-ADDED METHOD

Measures GDP by summing the value added to a commodity at each stage of the production process. For example, a wheat farmer, a miller, and a baker each contribute to the production of bread; if we sum up the incremental value added by each individual we get an estimate of GDP.

Production that is Not Counted

With few exceptions, GDP only counts goods and services that pass through organized markets. Which means production that is not bought or sold is normally not counted. For example, in subsistence agriculture a family grows food only for themselves; it is not sold, therefore does not increase GDP.

Finally, income in the "underground economy" is not counted. Often this economic activity is not reported to the government because people are trying to avoid paying taxes.

Converting GDP into US dollars

There are two ways to convert the GDP of a country into U.S. dollars:

The most common is by using the exchange rates found on currency markets. However, speculation can make the rates volatile and distort the "true" value of a country's currency.

Alternatively, purchasing power parity (PPP) used in this poster calculates the price for a "basket of goods" — housing, food, transportation — in one country and compares it the price of the same goods bought in the United States. This gives us the value of a U.S. dollar compared to the currency of another country. For example, if a hamburger costs \$2.80 in the United States and costs £3.70 in the United Kingdom, then \$1.00 = £1.32.

National Income Accounting Statistics

National income statistics are widely used, not just by economists, but by politicians, business people, and participants in financial markets trying to understand the size and strength of a country's economy.

Besides Gross Domestic Product (GDP), these statistics included Gross National Product (GNP). GNP is similar to GDP except it measures the economic activity by the country's citizens, regardless of where they live.

In recent years this terminology has changed. GNP has been replaced by Gross National Income (GNI) which brings it in line with the 1993 System of National Accounts (SNA) guidelines, adopted by many countries and international organizations.



Wealth is not the same as welfare.

A factory's production adds to GDP but its pollution does not reduce it. In fact, pollution can be counted twice in GDP once as the original production and again in the costs of environmental clean-up.

If crime increases, more police officers are hired and more prisons are built, which adds to GDP.

Although people considered their leisure time valuable, this is not counted in the GDP. If you work an 80 hour work week rather than a 40 hour work week, GDP will increase.

How Can You Measure a Nation's Wealth?

Examining the Gross Domestic Product (GDP) of the United States in the Year 2000

