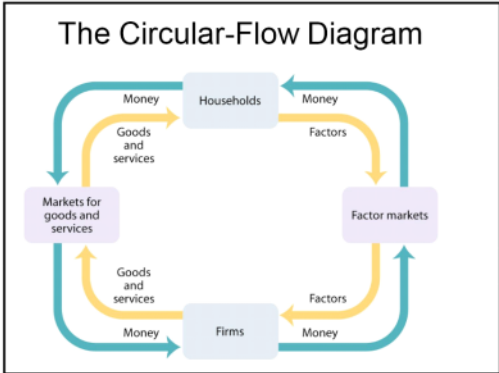
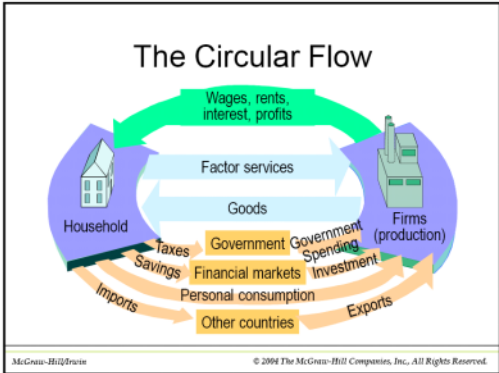


GDP 1 Flow

GDP

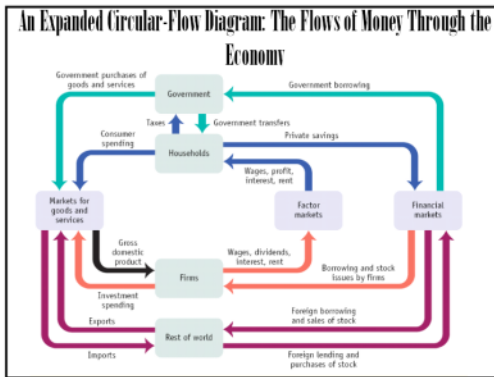
Income & The Expenditure Approach





The National Accounts

➤ Households earn income via the factor markets from **wages**, interest on **bonds**, **dividends** on **stocks**, and **rent** on land.

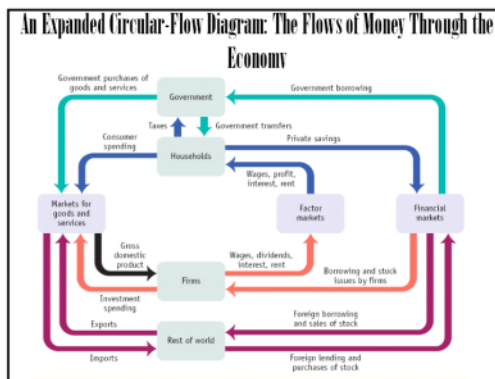


Income from the Factor Market

- | Income received by Households | Factors of Production |
|-------------------------------|-----------------------|
| • Wages | • Labor |
| • Rent | • Land |
| • Interest | • Financial Capital |
| • Profit | • Physical Capital |

The National Accounts

- Via the **financial markets**, private savings is channeled to firms for **investment spending (I)**.

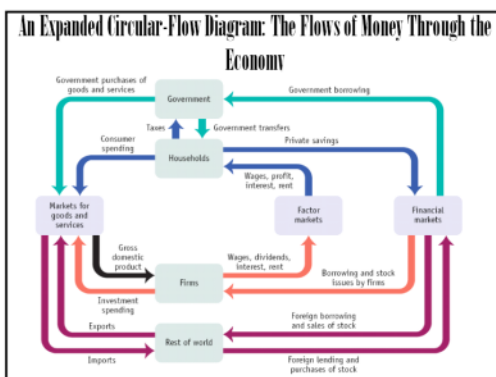


Investment Spending

- Spending on productive physical capital and changes to inventories
 - Inventories seen as contributing to the future sales of the firm
 - Spending on additional inventory adds to Investment spending
 - Drawing down inventories is counted as fall in Investment spending

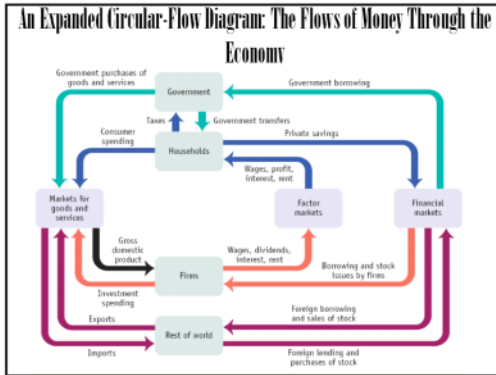
The National Accounts

- **Government purchases of goods and services (G)** is paid for by tax receipts as well as by **government borrowing**.



The National Accounts

- **Exports (X)** generate an inflow of funds into the country from the rest of the world
- **imports (IM)** lead to an outflow of funds to the rest of the world. Foreigners can also buy stocks and bonds in the U.S. financial markets.



GDP=C+I+G+(X-IM)

- C
- I
- G
- X
- IM

- Consumer spending
- Investment
- Government
- Exports
- Imports

What Is GDP?

- GDP is the nation's expenditures on all **FINAL** goods and services produced during the year at market prices.

9-3

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The Flow Not Stock

- With GDP we are measuring a Flow or a movement NOT a Stock

– The store of wealth is a stock concept.

A Stock Concept

How Much is a

Stock Concept



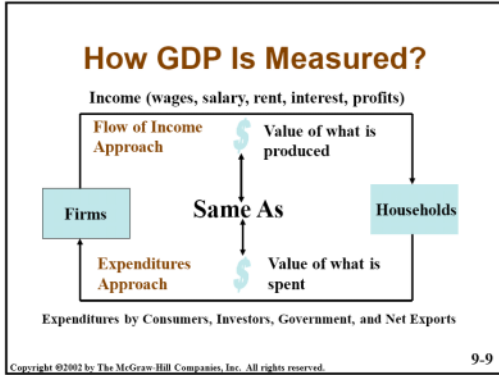
GDP is a flow concept

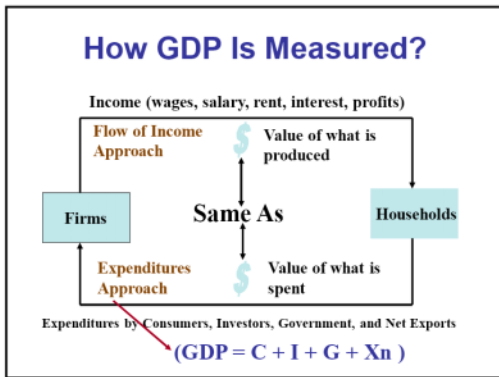
Income Arm



In Macroeconomics
Expenditures
Equals
Income

Expenditure Arm





The Components of GDP, 2000 (in \$ billions)

• Consumption	
- Durable goods	\$ 820
- Nondurable goods	2,010
- Services	3,929
- Total C	\$6,759
• Investment	
- Plant & Equipment	\$ 1,361
- Residential Housing	416
- Inventory change	57
- Total I	1,834
• Government Purchases	
- Federal	\$ 595
- State and Local	1,148
- Total G	\$1,743
• Net Exports (X_n)	
- Exports	\$ 1,099
- Imports	1,466
- X_n	\$ - 370
• GDP	\$9,966

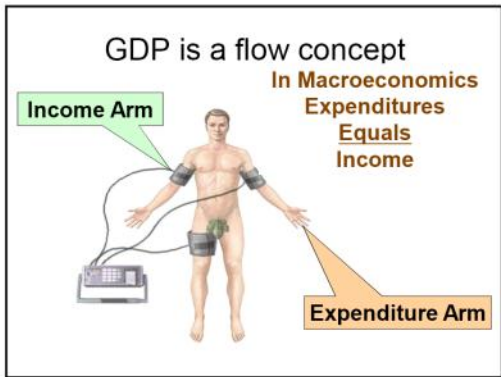
9-4

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The Components of GDP, 2000 (in \$billions)	
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Net Exports (X_n)	
- Exports	\$ 1,099
- Imports	1,466
- X _n	\$ -370
GDP	\$9,966

GDP = C + I + G + X_n
GDP = 6,759 + 1,834 + 1,743 + (-370)
GDP = 9,966

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What's measured on the income side?

Income received by Households	Factors of Production
• Wages	• Labor
• Rent	• Land
• Interest	• Financial Capital
• Profit	• Physical Capital
