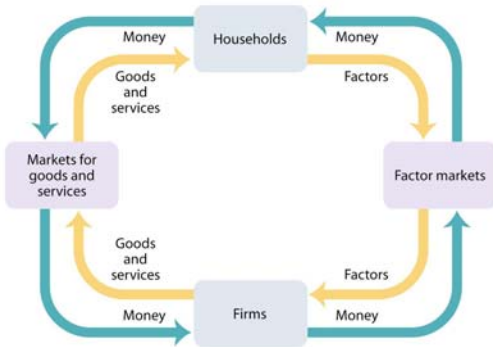


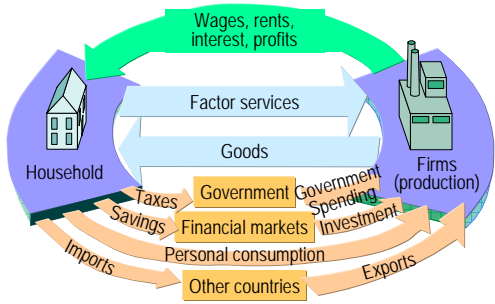
GDP

Introduction & The Expenditure Approach

The Circular-Flow Diagram



The Circular Flow

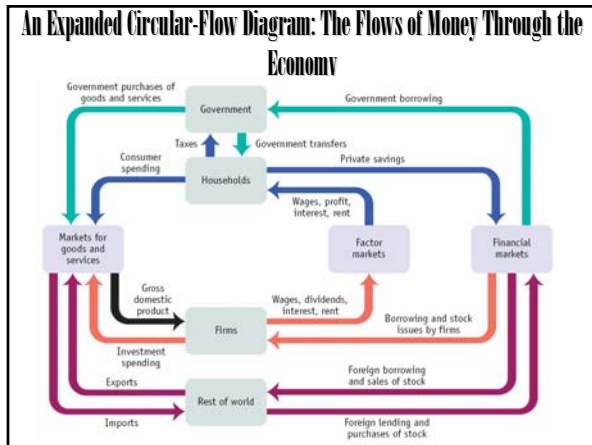


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The National Accounts

➤ 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

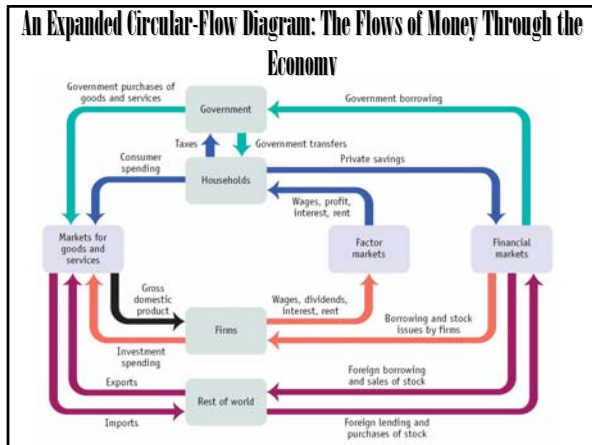
- Wages
- Rent
- Interest
- Profit

Factors of Production

- Labor
- Land
- Financial Capital
- Physical Capital

The National Accounts

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

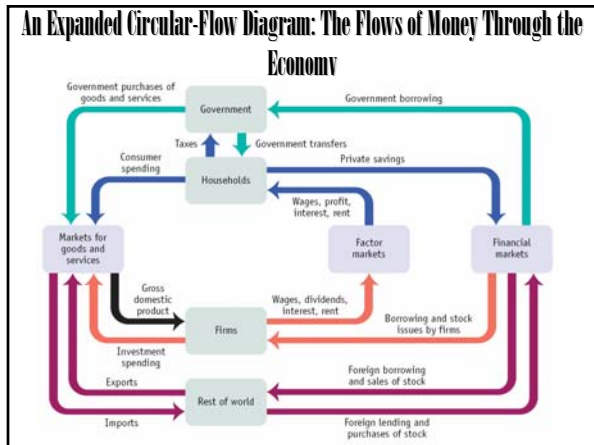


Investment Spending

- 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

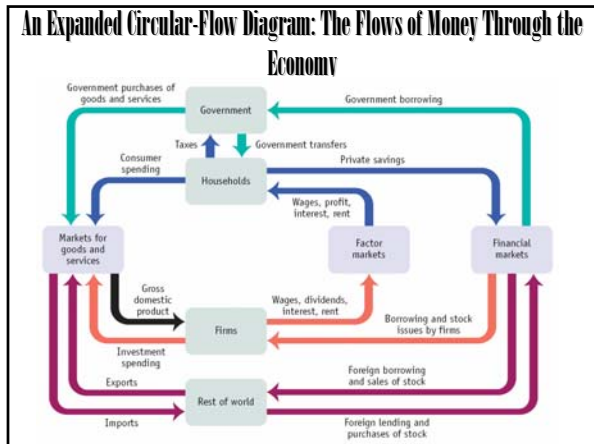
The National Accounts

- **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.**

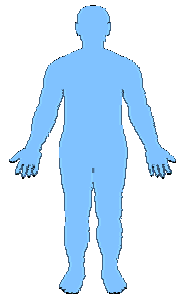
The Flow Not Stock

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

– The store of wealth is a stock concept.

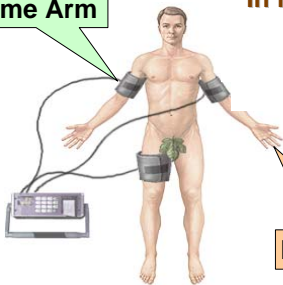
A Stock Concept

'How Much is a Stock Concept



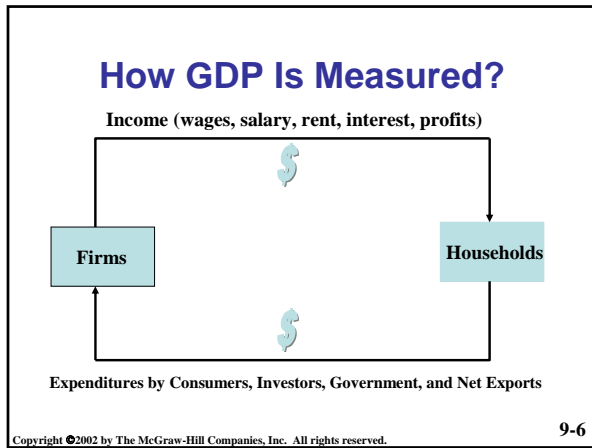
GDP is a flow concept

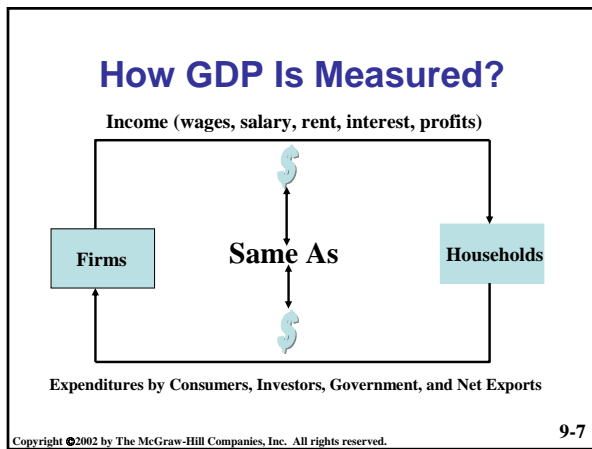
Income Arm

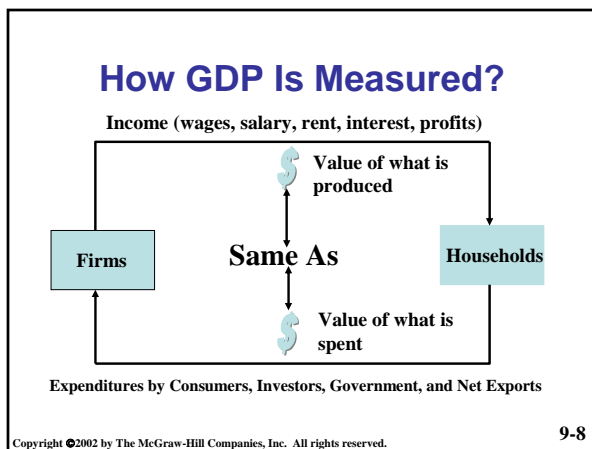


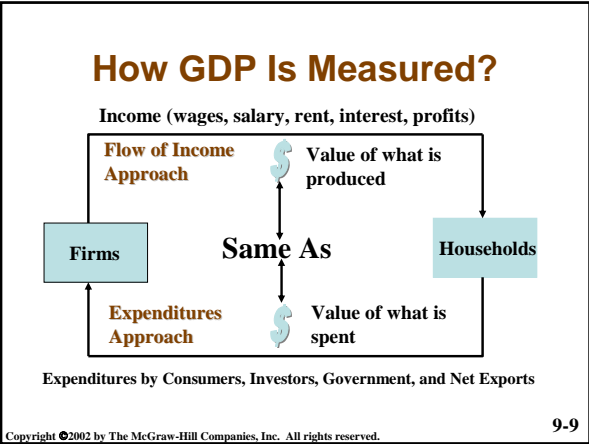
In Macroeconomics
Expenditures
Equals
Income

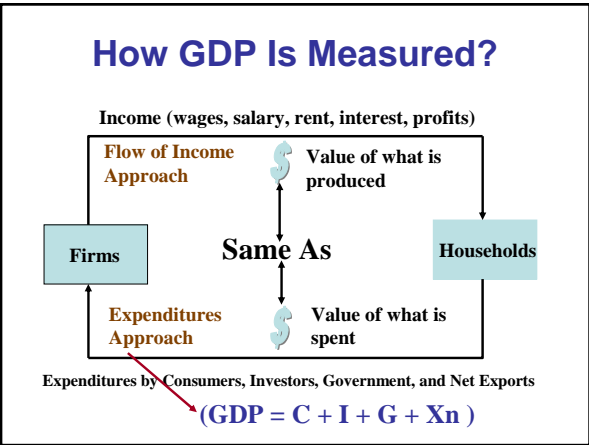
Expenditure Arm











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 (Xn)	
- Exports	\$ 1,099
- Imports	1,466
- Xn	\$ - 370
- GDP	\$9,966

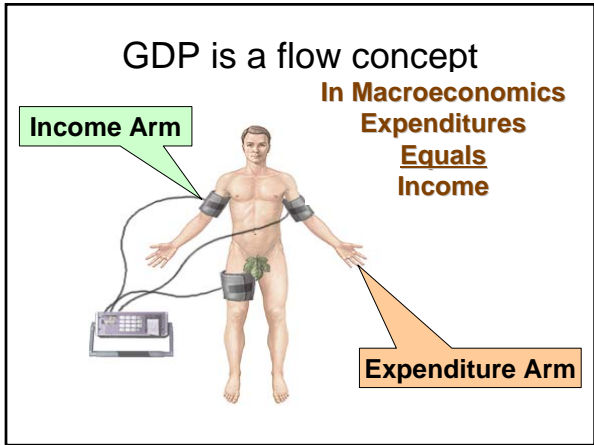
9-4

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9-5



What's measured on the income side?

<p>Income received by Households</p> <ul style="list-style-type: none"> • Wages • Rent • Interest • Profit 	<p>Factors of Production</p> <ul style="list-style-type: none"> • Labor • Land • Financial Capital • Physical Capital
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