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GDP - Expenditure and Income Approaches

Gross Domestic Product (GDP) is the market value of all officially recognized produced final goods and services in a country in a given period. GDP is a global measurement which indicates the economic growth of a given country (Dutta 95). Components of GDP include several economic indexes which are generated by individuals, households, and industries. Economists define two possible approaches for calculating GDP: expenditure and income.

The expenditure approach calculates GDP as a sum of all expenses over a given period (Dutta 96). This approach only accounts for consumption, expenses, government spending, and the difference between exports and imports.

The standard formula for GDP (expenditure approach) is:

$$Y = C + I + G + (X - M)$$

C - equals consumption and means all expenses a state's households generate during a selected period. Personal expenses fall under this measurement through durable goods, non-durable goods, and services.

I - undertakes investments but does not include the purchase of financial products. The businesses' investments or real estate purchases are investments; however, the formula excludes existing assets and savings.

G - relates to governmental expenses, which are the sum of all state expenditures on final goods and services. This index includes the salaries of public servants, subsidies, the purchase of military equipment, support of national programs, and any investment done by the government ("Measuring Output Using GDP").

X – is exports. This measurement collects all profits from exported goods and services.

M – stands for imports and reveals expenditures on all goods and services purchased by the state.

Components of GDP (in trillions of dollars)	
Consumption	\$12.8
Investment	\$3.0
Government	\$3.3
Net Exports	-\$0.50
Exports	\$2.2
Imports	-\$2.7
Total GDP	\$18.6

1.1 Table indicates how GDP is calculated

The income approach reviews the GDP index as the sum of all generated incomes through a given period. This approach compounds salaries, supplementary labor income, business entities profits, savings, subsidies, taxes, and depreciation (Capital Consumption Allowance) (Dutta 103).

The standard formula for GDP (income approach) is:

$$\text{GDP} = w+i+r+p+ \text{IBT} + \text{CCA}$$

W - is labor income. Includes the wages and salaries gained by the state's citizens. In addition, it is vital to note that wages are calculated for non-public workers.

I - interest which the bank system paid over the calculated period. This measurement undertakes all possible benefits and financial products (savings, shares, and bonds).

R – stands for rental income from an existing property. This variable also summarizes any royalties from patents, assets, and copyrights.

P - is profits which are left within companies after they paid all liabilities and taxes. P undertakes all resources which a company has, excluding property, labor capital, and produced products and goods.

IBT - or Indirect Business Taxation. This measurement is calculated from the difference between national income and GDP. In addition, this variable relates to the market value of the goods or services, as the difference between consumer price and the actual product price.

CCA - Capital Consumption Allowance and Depreciation. This index measures the number of needed expenditures required by the state to maintain its operations ("Measuring Output Using GDP"). This measurement covers the annual costs of the country; however, it can be taken from a period if needed.

The described approaches to calculating GDP are the primary economic formulas used for evaluating a country's productivity and growth rates. Furthermore, GDP generates results based on numeric variables so that GDP is more of a statistical variable rather than a real

representation of a state's welfare and growth (Dutta 101). Some economists are already looking for a GDP alternative, as this index has predispositions to information misinterpretation and context distortion.

Works Cited

Dutta, Subhendu. *Introductory Economics (Micro and Macro)*. New Age International (P) Ltd., Publishers, 2017.

"Measuring Output Using GDP". *Boundless Economics*, 2019,
<https://courses.lumenlearning.com/boundless-economics/chapter/measuring-output-using-gdp/>.