Calculating gross domestic product worksheet

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Gross Domestic Product (GDP) is the monetary value, in local currency, of all final economic goods and services produced in a country in a given period of time. It is the largest financial measure of a nation's total economic activity. Total goods and services purchased by consumers include all private expensesExpenses An expense is a cash payment or credit for the purchase of goods or services. An expense is recorded at a single point in time (time of purchase) compared to an expense that is allocated or accumulated over a period of time. This guide will review the different types of expenditure in accounting, government expenditure, investment, and net exports. Below are three different approaches to the GDP formula. What is the GDP formula? There are two main methods or formulas by which GDP can be determined: #1 The Most Commonly Used GDP Formula Approach, which is based on money spent by different groups participating in the economy. GDP = C + G + I + NXC = consumption or all private consumer spending in a country's economy, including durable goods (articles with a lifespan of more than three years), unsustainable goods (food and clothing) and services. G = total government expenditure, including salaries of government employees, construction/repair of roads, public schools and military expenditure. I = the sum of a country's investments spent on capital equipment, inventories and housing. NX = net exports or total exports of a country minus total imports.#2 Approach to incomeThis GDP formula takes the total revenue generated by the goods and services produced. GDP = Total national income + Sales taxes + Depreciation + Net income of foreign factors Total national income – sum of all wages, rent, interest and profit Net profit margin (also known as Profit Margin or Net Profit Margin Rate) is a financial report used to calculate the percentage of profit that a company produces from its total income. This measures the amount of net profit that a company makes per dollar from its revenue.. Sales taxes – consumer taxes imposed by the government on sales of goods and services. Depreciation – the cost allocated to a tangible asset during the useful life.Net of foreign income – the difference between the total income that citizens and companies of a country generate in foreign countries, compared to the total income generated by foreign citizens and companies in that country. What are the types of GDP? GPD can be measured in several different ways. The most common methods include: nominal GDP – the total value of all goods and services produced at current market prices. This includes any changes in market prices during the current year due to inflation or Real GDP – the sum of all goods and services produced at constant prices. The prices used to determine Gross Domestic Product shall be based on a given base year or the previous year. This provides a more accurate picture of the because it is already an inflation-adjusted measure, which means that the effects of inflation are eliminated. Real GDP – real-time measurement of all achievements at any interval or at any given time. This demonstrates the current state of the economy. Potential GDP – ideal economic condition, with 100% employment in all sectors, constant currency and stable product prices. Why is GDP important for economists and investors? Gross Domestic Product represents the economic output and growth of a nation and is one of the main indicators used to determine the overall well-being of a country's economyThe economic economies of the economy are designed as self-study guides to learn the economy at its own pace. Browse hundreds of articles about the economy and the most important concepts, such as the business cycle, the GDP formula, the consumer surplus, economies of scale, economic added value, supply and demand, balance and more and standard of living. One way to determine how well a country's economy is thriving is by the gdp growth rate. This rate reflects the increase or decrease in the percentage of economic output in monthly, quarterly or monthly periods. Gross domestic product allows economic policy makers to assess whether the economy is weakens or progressing, needs improvement or restrictions, and whether threats of recession or inflation are imminent. From these assessments, government agencies can determine whether monetary expansion policies are needed to address economic problems. Investors are implementing significant GDP growth rates to decide how to change the economy so that they can make adjustments to asset allocation. However, when there is an economic crisis, businesses face low profits, which means that lower share prices and consumers tend to cut spending. Investors are also looking for potential investments, locally and abroad, based on country's comparisons on growth rates. What are some disadvantages of GDP? Gross Domestic Product does not reflect the black market, which can be a large part of the economy in some countries. The black market, or the underground economy, includes illegal economic activities, such as drug sales, prostitution, and some legal transactions that do not comply with tax obligations. In these cases, GDP is not an exact measure of components that play an important role in the economic state of a country. Revenues generated in a country by an overseas company that is transferred back to foreign investors are not taken into account. This overestimates a country's economic output. Sources of GDP InformationFor information on U.S. GDP, Department of Economic Analysis Office U.S. trade is the best direct source. You can see the latest versions of the office here: Resources We hope this was a useful guide to the GDP formula. EFI is the official provider of the global Financial Modeling & Valuable Analyst (FMVA)™FMVA® CertificationJoin 350,600+ 350,600+ working for companies like Amazon, J.P. Morgan and the Ferrari certification program, designed to help anyone become a world-class financial analyst. To continue to learn about important economic concepts, see the additional free resources of the IFC below:Consumer Surplus Consumption Surplus Is an economic measure to calculate the benefit (e.g. surplus) of what consumers are willing to pay for a good or service relative to its market price. The formula for excess consumption is based on an economic theory of marginal utility. Inelastic DemandInelastic DemandInelastic demand is when buyer demand does not change as much as price changes. When the price rises by 20% and demand decreases by only 1%, demand is said to be inelastic. Macroeconomic Interview QuestionsInterpotomy Questions Most Frequently Economic Interview Questions. For anyone with an interview for an analyst position in a bank or other institution, this is a guide. While there are an unlimited number of economic questions you could be asked, these questions will give you a sense of the types of questions you could get. Financial Modeling GuideFree Financial Modeling GuideThis Financial Modeling GuideCovers Excel Tips and Best Practices on Assumptions, Drivers, Forecasting, Connecting the Three Situations, DCF Analysis, Multiple Learning Objectives Describe how GDP is measured as a component of total expenditure (demand) Explain gross domestic product can be broken down and measured as different product types If we know that GDP is measuring everything that is produced , should we also ask ourselves who buys all this production? This demand can be divided into four main parts: consumer expenditure (consumption) public investment expenditure on goods and services net export expenditure What does economists mean by investment or investment expenditure? When calculating GDP, investments do not relate to the purchase of shares and bonds or the trading of financial assets. It refers to the purchase of new capital goods, i.e. business equipment, new commercial real estate (such as buildings, factories and shops), residential housing construction and inventories. Inventories that are produced this year are included in this year's GDP, even if they have not yet sold. From the accountant's perspective, it is that the firm would also be invested in its own inventories. Business investments in 2012 were more than $2 trillion, according to the U.S. Bureau of Economic Analysis. Table 1 shows how these four components of demand were added to GDP in 2016. Table 1. Components of the U.S. GDP in 2016: Expenditure Components of GDP (in trillions of dollars) Percentage of total consumption $12.8 68.7% Investment 16.3% Government $3.3 17.6% Net Exports -$50 -2.7 Exports $2.2 12.0% Imports –$2.7 -14.7% Total GDP $18.6 100% Source: Table 1.1.5 Gross Domestic Product Figure 1 provides a visual representation of the five categories used measure GDP according to the components of demand. Figure 1. Components of U.S. GDP. Consumption accounted for 68.7% of total GDP, investment expenditure by 16.3%, government spending by 17.6%, while net exports (exports minus imports) actually decreased by 2.7% of total GDP. The pie chart gives a nice picture of the components of GDP, but keep in mind that because the net share of export spending is negative, the size of the pie is only about correct. Figure 2(a) shows the levels of consumption, investment and government procurement over time, expressed as a percentage of GDP. Consumer spending, i.e. household and private spending, accounts for about two thirds of GDP, but moves relatively little over time. Investment spending and government spending on goods and services are each about the same order of magnitude, 15-20% of GDP. Investments are the most variable category of expenditure, increasing and decreasing more than the other categories. Figure 2(b) shows the levels of exports and imports as a percentage of GDP over time. Exports are added to the total demand for goods and services, while imports are deducted from total demand. If exports exceed imports, as in most 1960s and 1970s in the US economy, there is a trade surplus. If imports exceed exports, as in recent years, then there is a trade deficit. Components of GDP for household consumer spending in demand is the largest component of GDP, accounting for more than two thirds of GDP in any year. This tells us that consumer spending decisions are a major factor in the economy. However, consumer spending is a gentle elephant: when viewed over time, do not jump too much around (as shown in Figure 2). In recent years, consumption has increased to 70%. Investment expenditure shall relate to purchases of physical installations and equipment, mainly by undertakings. If Starbucks builds a new store, or Amazon buys robots, these expenses are counted as part of business investments. Investment demand is much lower than consumer demand, usually accounting for only about 15-18% of GDP, but it is very important for the economy, because jobs are created here. However, it fluctuates more than consumption. Business investment is volatile; New technology or a new product can boost business investment, but then confidence can decrease and business investment can pull back suddenly. The investment includes any addition to business inventories. Government Expenditure If you have noticed any of the infrastructure projects (new bridges, highways, airports) launched during the 2009 recession, you have seen important may be government spending on the economy. Government spending in the United States is about 20% of GDP, and includes spending at all three levels of government: federal, state, and local. The only part of government spending taken into account in GDP is government purchases of goods or services produced in the economy. Examples include the government government a new fighter jet for the Air Force (federal government spending), the construction of a new highway (state government spending), or a new school (local government spending). A significant part of government budgets are transfer payments, such as unemployment benefits, veterans' benefits and social security payments to retirees. These payments are excluded from GDP because the government does not receive a new good or service in return or in return. Instead, these are revenue transfers from taxpayers to others. What taxpayers spend is included in consumer spending. Net exports or trade balance When we think about the demand for goods produced on the domestic market in a global economy, it is important to count the expenditure on exports - goods produced on the domestic market, which are purchased by foreigners. In the same way, we must also cut expenditure on imports – goods produced in other countries that are purchased by the residents of that country. The net export component of GDP is equal to the value of exports (X) minus the value of imports (M), (X – M). The difference between exports and imports is also called the trade balance. If a country's exports are higher than its imports, then a country is said to have a trade surplus. In the United States, exports usually exceeded imports in 1960 and 1970, as shown in Figure 2(b). Since the early 1980s, imports have typically outpaced exports, so the United States has experienced a trade deficit in most years. Despite the increase in the trade deficit in the late 1990s and the mid-2000s, the typical deficit remains less than 5% of GDP. Figure 2(b) also shows that imports and exports have increased substantially in recent decades, even after decreases during the Great Recession between 2008 and 2009. After mentioned above, if exports and imports are equal, foreign trade has no effect on total GDP. However, even if exports and imports are balanced overall, foreign trade could still have strong effects on certain industries and workers, prompting nations to move workers and physical capital investment to one industry rather than another. GDP Measured using components of demand Based on these four components of demand, GDP can be measured as follows: GDP = Consumption + Investment + Government expenditure + Net exports GDP = C + I + G + (X – M) Understanding how to measure GDP is important for analysing connections in macroeconomics and for thinking about macroeconomic policy instruments. Government economists at the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) build GDP estimates from a variety of sources. Every five years, in the second and seventh year of each decade, the U.S. Census Bureau conducts a detailed census of businesses in the United States. In the meantime, conduct a monthly retail survey. These figures are adjusted with external trade data to take account of exports produced to the United States and sold abroad and imports produced abroad and sold here. Every ten years, the Census Bureau also conducts a comprehensive study of housing and residential finances. Together, these sources provide the main basis for finding out what is happening for consumers. Investment. For investments, the Census Bureau conducts a monthly construction study and an annual expenditure study on physical capital equipment. Government spending. For what is bought by the federal government, statisticians rely on the U.S. Treasury Department. An annual census of governments collects information about state and local administrations. Because a lot of government spending at all levels involves hiring people to provide services, much of the government's spending is also tracked through payroll records collected by state governments and the Social Security Administration. Net exports: As regards foreign trade, the Census Bureau shall draw up a monthly record of all import and export documents. Additional surveys cover transportation and travel, and adjustment is made for financial services that are produced in the United States for foreign customers. Many other sources contribute to GDP estimates. Information on energy comes from the U.S. Department of Transportation and the Department of Energy. Healthcare information is collected by the Health Research and Quality Agency. Surveys of landlords provide information about rental income. The Ministry of Agriculture collects statistics on agriculture. All these bits and pieces of information arrive in different shapes at different time intervals. The BEA combines them to produce estimates of quarterly GDP (every three months). These numbers are then annualized by multiplying by four. Under other circumstances, quarterly GDP estimates what annual GDP would be if the trend over the three months continued for twelve months. As more information emerges, these estimates are updated and revised. The advance GDP estimate for a given quarter shall be released one month after one quarter. The preliminary estimate appears one month after that. The final estimate is published a month later, but it is not actually final. In July, approximately updated estimates for the previous calendar year are released. Then, every five years, after the results of the most recent detailed five-year business census have been processed, the BEA revises all past GDP estimates according to the latest methods and data, going all the way back to 1929. Read frequently asked questions on the BEA website. You can even email your own questions! GDP Measured by product type The expenditure approach divides GDP by who performs Consumption (households), Investments (enterprises and households), Government expenditure (governments) and net exports (rest of the world). GDP can also be measured by examining what is produced, instead of what is required. Everything that is purchased must be produced first. Table 2 breaks down GDP depending on the type of production produced: durable goods, unsustainable goods, services, structures and changes in stocks. Consumer spending (from the expenditure approach you read above) consists of expenditure on durable goods, unsustainable goods and services. The same applies to the government and net export spending. Investment expenditure is a combination of durable goods (such as business equipment) and structures, e.g. factories, office buildings, retail stores and residential construction). Table 2. GDP by product type in 2016 Components of GDP by product type (in trillions of dollars) Total percentage of durable goods 3.0 16.3% Unsustainable goods 2.5 13.1% Services 11.6 62.4% Structures 1 USD .5 8.0% Changes in stocks 0.2 1.1% total GDP 18.6 100% Source: Table 1.2.5 GDP per major product type Figure 3 provides a visual representation of the five categories used to measure GDP by product type. Figure 3. GDP by product type, 2016. Note that whether you break down GDP into spending components or depending on the type of product, the total is exactly the same. Figure 4 shows the components of GDP by product type, expressed as a percentage of GDP, since 1960. Services are the largest single component of GDP, accounting for more than half. Unsustainable goods were larger than durable goods, but in recent years, unsustainable goods have been closer to durable goods, which accounts for about 15% of GDP. Structures are around 10% of GDP, although they have declined in recent years. The change in stocks, the final component of aggregate supply, is not shown here; is usually less than 1% of GDP. Figure 4. Product types. Let's take a closer look at these components of GDP: Goods and services Thinking about what's happening in the economy, many non-economists immediately focus on solid, long-lasting goods, such as cars and computers. Goods that last three or more years are called durable goods. Goods lasting less than three years are called unsustainable goods. By far the bulk of GDP, however, is service. In addition, services have increased share of GDP over time. A detailed breakdown of the main service industries would include healthcare, education and legal and financial services. It has been decades since most of the U.S. economy involved making solid objects. Instead, the most common jobs in a modern economy involve a worker looking at pieces of paper or a computer screen; meeting with colleagues, customers or suppliers; or making phone calls. Even within the category Table 2 shows that long-term durable goods, such as automobiles and refrigerators, represent roughly the same part of the economy as short-term unsustainable goods, such as food and clothing. Structure category of structures includes everything from houses, to office buildings, malls, and factories. New structures that have been built or produced over a period of time are taken into account to this extent of GDP, GDP, is another way of looking at investment, as discussed above in terms of focusing on the demand for GDP measurement. Inventory variation is a small category that refers to goods that have been produced by an enterprise but have not yet been sold to consumers, and that are still in warehouses and on shelves. The value of stocks sitting on shelves tends to decline if businesses are better than expected, or to rise if businesses are worse than expected. When an enterprise produces production but fails to sell it, the increase in stocks is treated as an investment expense. Another way to measure GDP: Addressing national incomes GDP is a measure of what is produced in a nation. The main way of estimating GDP is with the spending approach that we discussed above, but there is another way. Everything a company produces, when it's sold, becomes the firm's income. Firms use income to pay their bills: Wages and wages for work, interest and dividends on capital, rent for land, profit for the entrepreneur, etc. So adding all the revenue produced in a year provides a second way of measuring GDP. This is why terms GDP and national income are sometimes used alternately. The total value of a nation's production is equal to the total value of a nation's income. These questions allow you to get as much practice as you need after you can click on the link at the top of the first question (Try another version of these questions) to get a new set of questions. Practice until you feel comfortable asking questions. durable good: a good lasting three years or more, would be a gross domestic product (GDP) of a machine or refrigerator: the value of the production of all final goods and services produced in a country in a one-year inventory: good that has been produced but has not yet been sold national income: includes all income obtained: wages, profits, rent and income from profit unsustainable goods : an asset lasting less than three years would be the food and clothing service: intangible product (as opposed to goods), would be entertainment, healthcare or educational structure: building used as residence, factory, office building, retail store or for other purposes trade balance: the difference between exports and the trade deficit of imports: it exists when a nation's imports exceed its exports and is calculated as imports – trade surplus of exports : exists when a nation's exports exceed imports and is calculated as exports – imports Contribute! 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