

## CHAPTER 22 : Economic Growth and GDP/GNI

### Key terms

1. Economic growth : a measure of how much output has increased by over a 12-month period. It is expressed as a percentage.
2. Green GDP : a measure of GDP that takes account of the environment costs of production such as pollution and the use of non-renewable resources.
3. Gross domestic product (GDP) : a standard measure of the output of an economy, used by countries around the world.
4. Gross national income (GNI) : the value of the goods and services produced by a country over a period of time (GDP) plus net overseas interest payments and dividends (Factor incomes)
5. Gross national product ( GNP) : the market value of goods and services produced over a period of time through the labour or property supplied by citizens of a country both domestically (GDP) and overseas.
6. Hidden, black or informal economy : economic activity where trade and exchange take place but which goes unreported to the tax authorities and those collecting national income statistics.
7. National happiness and well-being : the terms well-being. Standard of living and quality of life are often used with the same meaning. However, the term “ living standards” tends to have a slightly narrower focus on material welfare. The term well-being covers every dimension of a person’s life.
8. Net national income : a measure of national income that includes both net income from investments abroad and an allowance for depreciation of the nation’s capital stock.
9. Per person or per head or per capita : per individual in a population
10. Public expenditure : another name for government expenditure. Public spending is the amount of money spent by the government.
11. Purchasing power parities : an exchange rate of one currency for another which compares how much a typical basket of goods in one country costs compared to that another country.

12. Recession : two consecutive quarters of negative economic growth.
13. Standard of living : how well off is an individual, household or economy, measured by a complex mix of variables such as income, health, and the environment.
14. Subjective happiness : this term is used when an individual rate their happiness by giving it a score, based on their self-evaluation of happiness by giving it a score, based on their self-evaluation of happiness. This can be problematic, since there is no measurement unit for happiness. This means objective indicators of happiness and well-being are also often used in studies to provide a clearer picture. Objective measures are things that affect our happiness or well-being, such as income, health, education and safety. Etc.
15. Transfer payments : income for which there is no corresponding output, such as unemployment benefits or pension payments.
16. Value/Volume of national income : the value of national income is its money value at the prices of the day, the volume is national income adjusted for inflation and is expressed either as an index number or in money terms at the prices in a selected base year.

### 1. Gross Domestic Product ( GDP)

: is the value of all newly produced final goods and services produced in an economy within a given time period.

### 2. Gross National Income (GNI)

: is the total amount of money earned by a nation's people and business. It is used to measure and track a nation's wealth from the year to year.

$$\text{GNI} = \text{GDP} + \text{Net foreign factor income}$$

( Income that country's citizen earn abroad minus the income foreign resident earn in the country and send out the country)

#### Key takeaways :

GDP measures total value of output that produced in the economy, while GNI measures wealth of the nation

### 3. Nominal GDP VS Real GDP

Comparison	Nominal GDP	Real GDP
1. Meaning	: Sum total of economic of output produced in a year valued at a current market price.	: Sum total of economic output produced in a year valued at a pre-determined base market price.
2. Effect inflation	: Doesn't take inflation into account	: Inflation-Adjusted GDP
3. Value of GDP	: Is much higher sine current market changes are taken into effect	: is much lower.

#### **4. Total GDP & GDP per capita**

: GDP/Capital : measure of a country's economic output that accounts for its number of People.

: Good representation of a country's standard of living.

: Describe how much citizen benefits from their country's economy.

#### **5. GDP growth**

: indicator that represents change rate from one period to other period

$$\text{Formula : } \frac{\text{GDP year2} - \text{GDP year1}}{\text{GDP year1}} \times 100$$

#### **6. Concept of purchasing power parities ( PPPs)**

: is an economic theory that allows the comparison of the purchasing power of various World currencies to one another. It is a theoretical exchange rate that allows you to buy the same amount of goods and services in every country.

$$\text{Formula : } \frac{\text{Cost of good X in currency 1}}{\text{Cost of good X in currency 2}}$$

For example : The visitor bought 25 cupcakes for RS 250 and remarked that cupcakes are quite cheaper in India. The visitor claimed that on average 25 cupcakes cost at \$6.

Find out PPP between two countries.

$$\text{: PPP} = \frac{250}{6}$$

$$= 41.67$$

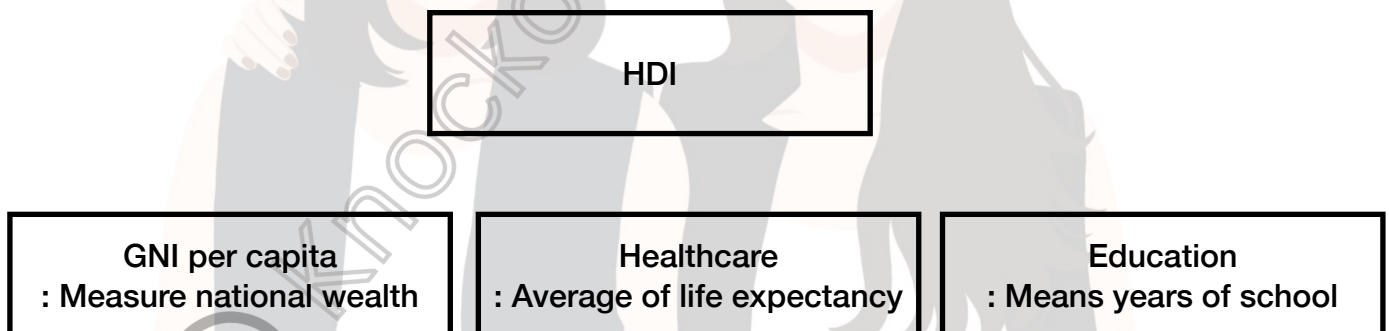
Therefore, the purchasing power parity ratio of the exchange for cupcakes is USD1=RS

41.67

## **7. Advantages and disadvantages of GDP**

<b>Advantages</b>	<b>Disadvantages</b>
<ol style="list-style-type: none"> <li>1. It is simple and general indicators that every countries use to compare</li> <li>2. It is easy to calculate</li> <li>3. It is useful for policy makers and analysts to easily guide, adjust and implement economic policy</li> </ol>	<ol style="list-style-type: none"> <li>1. It is not included non market activities : GDO does not measure goods and services that people make/ do themselves</li> <li>2. GDP does not account for black market</li> <li>3. GDP does not concern on standard of living</li> <li>4. It excludes negative externalities, unintended economic side effects eg. Pollution, Noise etc.</li> <li>5. It exclude indicator about education and healthcare</li> </ol>

## **8. Human Development Index ( HDI)**



: Data range between 0-1.

: Closer to 1 , better HDI and better standard of living

However, HDI exclude

- Environmental issues
- Negative externality
- Non-market activities/ Underground economy