GDP Accounting:
There are two ways of measuring GDP. The Expenditure Approach and the Income Approach.
In the Expenditure Approach if we add up the value of all the good and services produced in the economy, we run the risk of double counting. To avoid double counting we can either follow the final product approach or the value added approach. We used an example of “Baker Joe” and showed you how both the approaches would give us the same total value. In the final product approach only the value of the final goods and services (products and services which are directly consumed and not used for the production of other goods and services) are added up. While in the value added approach the contribution of each sector in the process of production is counted and accounted for. There are four major expenditure categories and we discussed them in detail. These four categories are,-
1. Personal Consumption Expenditure.
2. Gross Private Domestic Investment.
Under the Expenditure Approach, GDP=C+I+G+(X-M).
Under the Income Approach, GDP has 4 major components. These are,-
1. Compensation of Employees.
2. Interest.
3. Corporate Profit & Proprietor’s Income.
4. Rent.
We also discussed the discrepancies between GDP and National Income (NI) and how NI can be obtained from GDP. We also distinguished between Personal Income and Personal Disposable Income and how they can be obtained from GDP or NI. Make sure you know what has to be subtracted or added in each step in order to get one from the other. We also discussed certain short coming of GDP accounting as a measure of economic activity under the heading of, Value of Housework, Underground Economy, Leisure, Quality of Goods and Services and Costs of Environmental Damage.