

# National Income Accounting

# Gross Domestic Product

- A nation's aggregate output, or **Gross Domestic Product**, is simply the value of all **final** goods and services produced in that country in a year.

# Simon Kuznets

- 1971 Nobel Prize
- “For his empirically founded interpretation of economic growth ....”



# Miller's Pizzeria

Type	Units	Price	Sales \$
Plain	10,000	\$8	\$80,000
Pepperoni	8,000	\$10	\$80,000
<b>GDP</b>			<b>\$160,000</b>

# Final and Intermediate Goods

- We account for only final goods.
- We do so by measuring value added
  - Wages
  - Payments to capital owners
  - Profits

# A Sample Calculation

Transaction	Amount	Cost of Inputs	Value Added	Wage Income	Capital Income	Total Income
Sale by Miller's Pizzeria	\$160,000	\$90,000	\$70,000	\$50,000	\$20,000	\$70,000
Sales of Ingredients by Farmer Jones To Miller's	\$90,000	\$20,000	\$70,000	\$40,000	\$30,000	\$70,000
Sale by Wonder Seed of seed and Fertilizer to Farmer Jones	\$20,000	0	\$20,000	\$20,000		\$20,000
<b>Total</b>	<b>\$270,000</b>	<b>\$110,000</b>	<b>\$160,000</b>	<b>\$110,000</b>	<b>\$50,000</b>	<b>\$160,000</b>

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## The Key Accounting Identities

$$\text{Value Added} = \text{Income}$$

$$\text{National Income} = \text{National Product}$$

## Does GDP Measure National Welfare?

- More than any other single number, GDP summarizes a nation's well-being.
- However there are important omissions

## Problems

- GDP measures only market activities.
- Illegal activities are excluded
- Home production is excluded
  - Changing level of market and non-market activities
- GDP does not measure well being
  - Changes in pollution, crime and the like

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End

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