GDP (GROSS DOMESTIC PRODUCT)

GDP is the total market value of the goods and services, produced within a country, during the specified period of time (usually 12 months (or) a year)

It is the broadest financial measurement of a nation's total economic activity.

Types of GDP

Normal GDP

It is the total value of all goods and services produced at current market prices.

Real GDP

It is the sum of all goods and services produced at constant prices.

Actual GDP

It is the real-time measurement of all outputs at any interval (or) any given time.

Significance (or) importance of GDP

(i)   It identifies the present state of economy.

(ii)   It is used to compare the economics between countries.

(iii)   GDP is objective of policy formulation.

(iv)   GDP is the root cause.

(v)   It gives information about the size of economy and how an economy is performing.

(vi)   It is used to determine the development and performance of the economy.

Calculation of GDP

There are three different ways of calculating GDP

(i)   The value added approach.

(ii)   The income approach (how much is earned as income on resource used to make stuff).

(iii)   Expenditure approach (how much is spent on stuff). Of three, the expenditure approach is followed.

Expenditure approach

The expenditure approach calculates de GDP b calculating the sum of all the services and goods produced an economy. It is calculated with the following formula in

Private consumption (Gross private investment Government investment) + Government spending (Exports - Imports)

GDP= Y-C+1+G+(X-M)

where, Y Gross Domestic Product.

C Consumption.

I Investment.

G= Government spending.

X = Exports.

M = Imports.

Advantages of GDP

(1) GDP is a broad indicators of development.

(2) It is easy to measure growth in percentage.

(3) It is easy to compare to itself and other countries.

(4) It is easy and cheap to collect.

(5) GDP is calculated from a formula which all countries

(6) It is the very good way for government to know use therefore it is reliable indicator. whether economic policies have been successful

(7) It can be broken up into GDP per capita which accounts for the population of the country when it is calculated.

Disadvantages of GDP

(i) It does not include non-market transactions.

(ii) It is narrow indicator that fails to show quality of life, standard of living, happiness, health care.

(iii) It fails to indicate whether the growth of a nation is sustainable.

(iv) GDP does not account inequality.

(v) It doesn't account for environmental impacts of the economic policies.

(vi) It doesn't include the activity of informal sector (black market).

(v) Overseas income not taken into account.

(vi) High inflation may be behind a high GDP rate.

(vii) Government could adjust the figures to gain power.

(viii) Production process could be immoral.

(ix) It measures the growth in the past are not hugely relevant.

Sustainability - concept, needs and challenges - economic, social and aspects of sustainability