

How does GDP indicate Economic Performance?

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Economic Performance

GDP is the most widely known method to measure the national income of a country and the overall performance of an economy. Gross refers to the total, domestic defines the country that is considered, and product means the output produced or income generated. Hence, Gross Domestic Product means the total income generated or output produced by a country over a period of time.

How to measure GDP:

The Gross Domestic Product of a country is measured in three ways output method, which involves the calculation of the total products produced by a country; the income method, which measures the total income generated through services or goods excluding the costs; and the expenditure method which measures the total expenditure of an economy which indicates the national income. On the other hand, GDP can be divided into two categories that include nominal GDP, which does not account for the inflation rate and the decrease in money value, and real GDP, which considers the increase in the Price Index and eliminates the effect of inflation on the total income.

How does GDP indicate Economic Performance?

Gross Domestic Product shows the National Income of a country, which indicates the performance of that economy over a period of time. GDP is used to compare the performance of different economies. It is a basic and efficient indicator that shows the income levels of the people of a country and the living standards of the economy. Gross Domestic Product shows the rate of economic growth of a country, which means that the living standards have been improving for that country.

U.S. Gross Domestic Product (2008)

The GDP of the United States of America experienced a major drop to 48,401.43 USD, with a negative growth rate of -0.3 percent. This indicates a significant decrease in the country's economic performance (US Department of Commerce, n.d.).

The decrease in GDP growth reflects a fall in consumer spending and exports, a small decrease in

imports, a decrease in the development of infrastructure, and a decrease in the quality of life as income levels decrease and government revenue and hence spending are reduced as well.

The reasons for the fall in GDP can be blamed on the increase of 4.2 percent in the prices of goods and services, combined with a decrease in the real disposable income of 8.8 percent. This was because of the decrease in personal incomes and an increase in direct taxes, which resulted in a decrease in the expenditure of the country; hence, the aggregate demand decreased, and so did the aggregate supply, which led to a decrease in economic growth and annual GDP. Meanwhile, the profits generated by firms and businesses also decreased by 1.2 percent.

According to the Bureau of Economic Analysis, the real gross domestic product decreased at an annual rate of 6.3 percent by the end of 2008, which indicated a negative contribution from exports, consumption expenditures, investments, and a decrease in government spending.

Since the decrease of 2008 and a major decline in the economy during 2009, the gross domestic product of the United States has increased and improved the economic growth. According to BEA, the real GDP increased at an annual rate of 2.5 percent during the fourth quarter of 2017. The real GDP has changed significantly since 2008 as there have been major developments and increases in the economic growth of the United States. Income levels have increased, with poverty on a decline, and higher living standards have been achieved.

National Income

National income is the total income generated by a country over a period of time. It is used as an indicator of economic performance. The total output of a country is used to compare the performance to previous years and other countries to analyze how the economy is doing and how it can be improved. A high national income indicates higher living standards in a country.

Difference between GDP and National Income

Gross domestic product accounts for the total output generated by a country in a period of time, which is a small part of the overall National Income. The other hand includes GDP, GNP (gross national product), GNI (gross national income), and income from foreign exchange.

Changes in National Income since 2008

The National Income of the United States in 2008 was 14.79 trillion PPP dollars, which has improved to 18.75 trillion PPP dollars in 2016. The significant change is due to the overall improvement in the gross domestic product at a rate of 2.3 percent. The inflation rates stayed stable, with a price index increase of only 1 percent.

Disposable Income

Disposable income is the income of an individual after accounting for direct taxation and security charges and the remaining left for personal consumption or saving. Disposable income consists of income that is left after the deduction of taxes and other charges, which are compulsory for following the regulations of the country. Disposable income indicates the real income of an individual and how much they can spend or save, showing their wealth.

The disposable income of the population of the United States in 2008 decreased from earlier years because of the increase in taxation and decrease in the earnings of the people; hence, the gross domestic income decreased. The disposable income has since then improved due to the decrease in inflation and tax rate while the aggregate demand increased and the economy experienced growth. The recession of 2007-2009 had caused major problems for the American population.

GDP as an Indicator of Living Standards

Real GDP per head figures are used as the main indicator of a country's living standards of a country. An economy with a high GDP is considered to have high living standards because gross domestic product shows the output level of a country, which means that the country is generating enough income collectively to meet the basic requirements of its citizens, including other developments that improve the standards of living such as their rights, healthcare, availability of resources, etc.

However, an increase in the output per head does not indicate high living standards for all the citizens of a country. This is because of the unequal distribution of income, which is not accounted for when calculating the average gross domestic product per capita. 1 % of the population might be generating 90% of the income of that country while the rest of the population suffers from poverty and poor living conditions (Fraumeni, B. M. 2017).

Moreover, real GDP does not consider the political situation, healthcare services, or infrastructure of the country as major contributors to the standards of living of the citizens. The political situation of a country and its laws and new policies can determine the living conditions of the population as they might be able to generate enough income. Still, they require proper resources and their human rights to live in peace (Steckel, R. H. 1995). Healthcare services are also important for providing good living conditions to the citizens of a country, while infrastructure is another important factor in determining the standards of living. Gross domestic product is no longer a reliable method to measure the living standards of a country. Still, it shows the overall performance of an economy, and if a country can generate high levels of output, this means that the government might be able to spend it efficiently and effectively to develop the infrastructure, provide benefits to citizens, and improve healthcare services to increase the living standards.

References

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