SECTION 6.1 NATIONAL INCOME ACCOUNTING: MEASURING ECONOMIC PERFORMANCE

- There is a great desire to measure the success, or performance, of our economy to know whether the economy is growing or getting smaller. It is very important to macroeconomic policy makers in setting goals and developing policy recommendations and to private business and investors to assist in their decision-making.
- **National income accounting** was born early in the twentieth century in an attempt to develop a reliable method of measuring a country's economic performance.
- Several measures of aggregate national income and output have been developed, the most familiar of which is **gross domestic product (GDP)**. GDP is defined as the value of all final goods and services produced in a country in a period of time, almost always one year.
- The value of goods or services is determined by the market prices at which the services sell. Underlying GDP calculations, then, are the various equilibrium prices and quantities for the multitude of goods and services produced.
- A final good or service is one that is ready for its designated ultimate use, in contrast to intermediate goods or services that are used in the production of other goods.
- If we counted the value of intermediate goods as well as the full value of the final products in GDP, we would be **double counting** by adding the value of an intermediate good twice, first in its raw form and second in its final form.

Exhibit 1: *The Expanded Circular Flow Model*

- There are two primary ways of calculating economic output: the expenditure approach and the income approach. Although these methods differ, their result, GDP, is the same, apart from minor statistical discrepancies.