

FACULTY OF JURIDICAL SCIENCES

Lecture-7



GDP

GDP refers to the gross domestic product and is a widely used measure to determine the size of the economy of a nation. It represents the total amount of goods and services produced in a country within a financial year.

The GDP takes the purchases of newly produced goods and services for a particular period into account. In calculating the GDP, the focus is on the total value of goods and services produced within the country borders, irrespective of whether the value addition is due to the residents or non-residents of the country.

There are two methods of calculating GDP. They are:

1. Expenditure approach
2. Income approach

The expenditure approach takes into account adding up all the amount spent on goods and services during the period.

$$\text{GDP} = C + I + G + (X - M)$$

Where,

C = Consumption spending

I = Business investments (Capital equipments, inventories)

G = Government purchases

X = Exports

M = Imports

Income approach: Under the income approach, the GDP is calculated by adding up three factors.

$$\text{GDP} = \text{National income} + \text{Statistical discrepancy} + \text{Capital consumption allowance}$$

GNP

GNP is known as gross national product and represents the total value of goods and services produced by the residents of a country during a financial year.

It takes the income earned by the citizens of the country present within or outside the country into consideration. It excludes the income generated by the foreign nationals who are residing in the country. It can be calculated as:

$$\text{GNP} = \text{GDP} + \text{NR} - \text{NP}$$

Where,

GDP = Gross domestic product

NR = Net income receipts

NP = Net outflow to foreign assets

Differences between GDP and GNP

GDP	GNP
Definition	
The value of goods and services produced within the geographical boundaries of a nation in a financial year is termed as GDP.	The value of goods and services produced by the citizens of a nation irrespective of the geographical limits in a financial year is known as GNP.
What Does It Measure?	
It measures only the domestic production.	It measures only the national production.
Emphasis	
It emphasizes on the production that is obtained domestically.	It emphasizes on the production that is achieved by the citizens living in different nations.
Highlights	
It highlights the strength of the country's economy.	It highlights the contribution of the residents to the development of the economy
Scale of Operations	
Local scale	International scale
Excludes	
The goods and services that are being produced outside the economy are excluded.	The goods and services that are produced by the foreigners living in the country are excluded.