Macroeconomics & the World Economy

Day 2 – Gross Domestic Product (GDP)

Because even governments get graded

Objectives

- **Understand what GDP is and why it matters**

- **Identify the Three Main Types of GDP**

- **Look at the GDP of major countries in the world**

- *Terms:*
  - **GDP**
  - **Nominal GDP**
  - **Real GDP**
  - **Per Capita GDP**
  - **GNP**
  - **Economic Growth**

Remind me...

- *What are the two types of Economics?*
  - *What's the difference?*
- *How is performance measured?*

- *Today we talk about the first, the way we measure output for a government or country... GDP*

GDP

- **GDP – Gross Domestic Product**
  - *In this case "gross" doesn't mean Cooper-Pooper, it means "total"*
- **Monetary value of all goods and services produced in a country during a specific time period**
  - *Usually measured annually (1 year)*
- **Output**
- *We use this to measure "wealth" of a country*

3 Types of GDP

- **Nominal**
- **Real**
- **Per Capita**

- *Then there's GNP*

Nominal GDP

- **Measures the GDP at the current market price**

- *Just think, if GDP in 1901 was $1.6 billion, that is not very much compared to 2018, which is $20.5 trillion*

- *····or is it?*

Real GDP

- **Measures the GDP, adjusting for inflation**
  - *What is inflation again?*
  - *Why would that be important?*
  - *Remember how Nominal GDP in 1901 was $1.6 billion? Well REAL GDP in 1901 is $36.3 billion. Still far less than today, but that´s a big difference, right?*
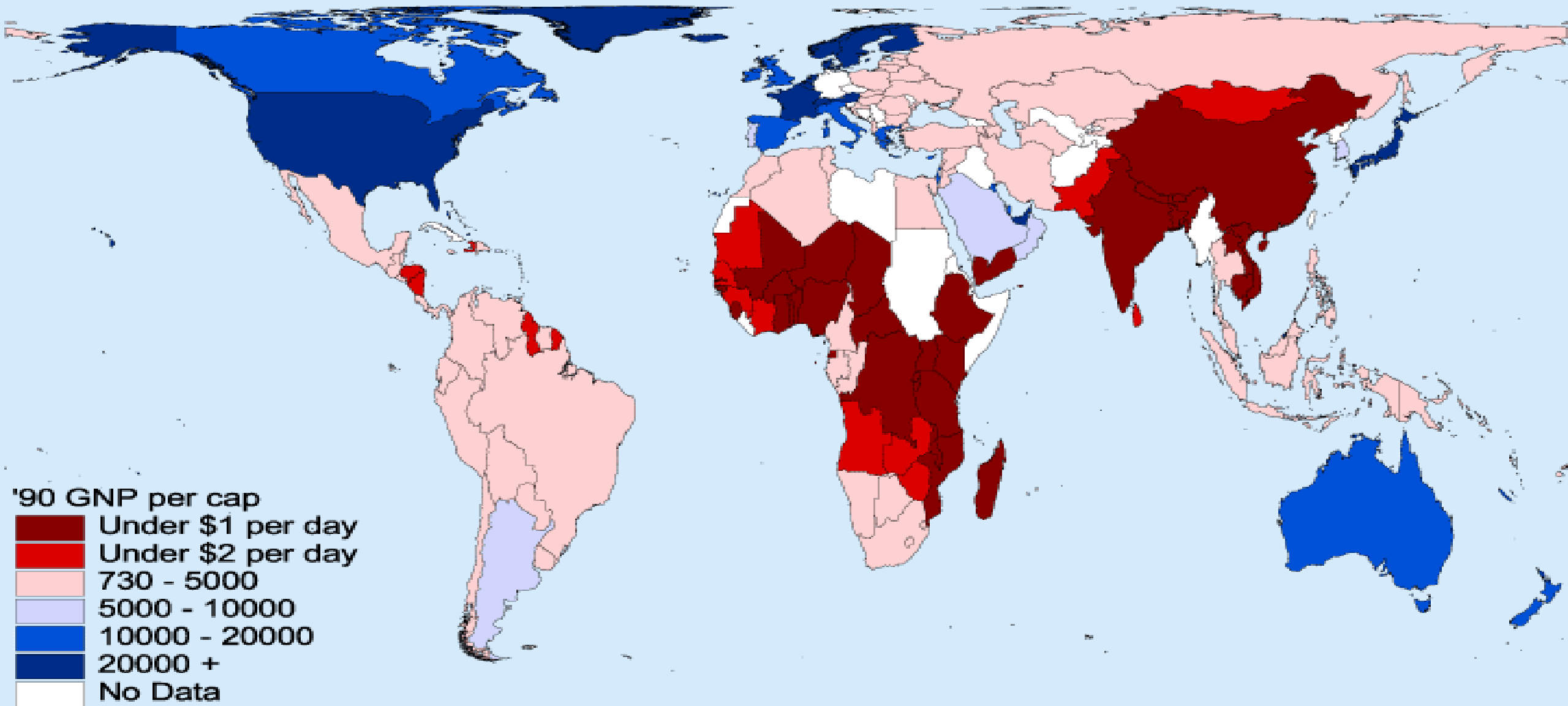 - *BUT··· what is the other huge difference between 1901 and 2018 in the U.S.?*

Per Capita GDP

- **Real GDP divided by the population of that country**

- **Is sort of like telling you, "This is how much GDP each person is responsible for"**

- *Why does that matter?*

- *In 1901 = $468, but in 2018 = $62,868*

- *In other words, each citizen is producing more today than in 1901, DESPITE what some would have you believe* ☺

  - *Random sidenote, avg. tax rate in 1901 was 1%. Today it is about 10%.*

Meanwhile... GNP

- There is also another term related to GDP, though not technically another type...

- GNP – Gross National Product

- The value of everything produced by a country's citizens, _regardless of where they live_
  - _So not just IN a country..._
  - _Why would that matter?_

GNP per capita 1990

'90 GNP per cap

- Under $1 per day
- Under $2 per day
- 730 – 5000
- 5000 – 10000
- 10000 – 20000
- 20000 +
- No Data

Economic Growth

- *The words make sense, but the definition has something important to remember…*

- It is **an increase in the amount of goods or** services produced <u>per person</u> over time

- *In other words… an increase in what?*
  - Per Capita GDP / GNP

- And Economic Growth is a country's "report card"

So how are we doing?

U.S. Gross Domestic Product
Billions of US Dollars, $B
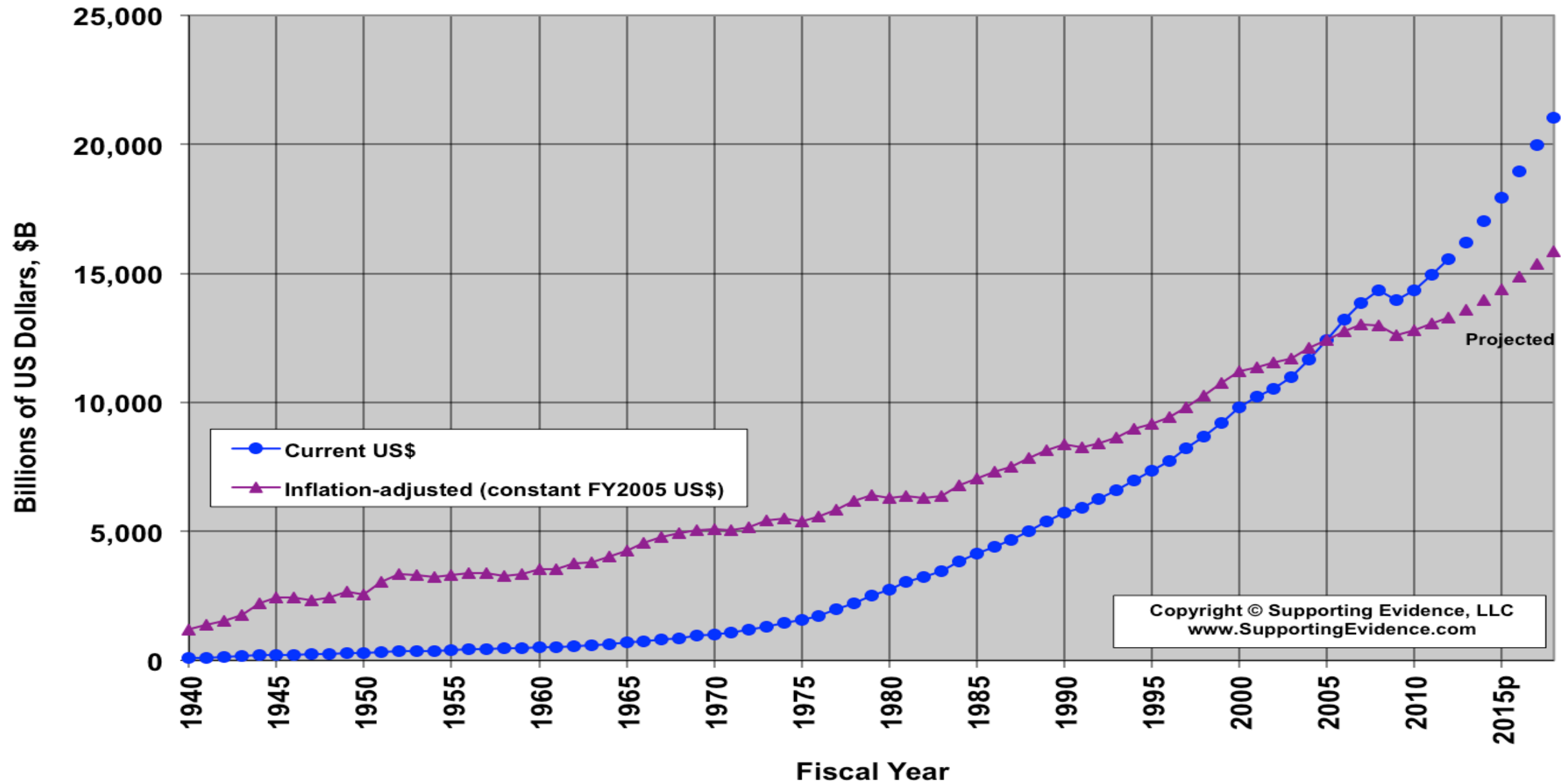
So who's #1? (in 2018)

TYPE	#1	#2
•**Nominal** =	•United States	•China
•**Real** =	•United States	•China
•**Per Capita** =	•Luxembourg	•Switzerland
•**GNP** =	•United States	•Japan

For 3 of these, the European Union would actually be #1, if it counted as a country

Interesting Facts about US GDP

- The U.S. has been #1 in those areas since 1945

- It has been predicted China will pass the U.S. THIS YEAR
  (meaning in 2020, when we have the numbers for 2019)

- Many States within the U.S. have higher State GDP's than many countries

  - *In fact…*

So, CPT Curtis, what's the point?

- 1) We need to understand what GDP is, because it is mentioned... a LOT

- 2) We should be careful about which TYPE of GDP we use, and are discussing

- 3) We should realize we were not always #1, and probably won't be for long...
  - UNLESS, we make some changes!

- 4) How could we increase our economic growth?

Objectives

- **Understand what GDP is and why it matters**
- **Identify the Three Main Types of GDP**
- **Look at the GDP of major countries in the world**

- *Terms:*
  - **GDP**
  - **Nominal GDP**
  - **Real GDP**
  - **Per Capita GDP**
  - **GNP**
  - **Economic Growth**