



## GDP and Related Terms

# GDP AND RELATED TERMS

### GROSS DOMESTIC PRODUCT (GDP):

- Total monetary value of all finished goods/services produced within a country in one year
- 3 methods to calculate GDP - expenditures, production, income Method
- Provides an economic snapshot to estimate a country's economy/growth rate
- GDP is not an accurate measure of the overall living standard/ well-being of a country
- $GDP = \text{Goods and services consumed (C)} + \text{Investments (I)} + \text{Govt expenditures (G)} + (\text{Exports (X)} - \text{Imports (M)})$

#### Nominal GDP (NGDP)

- GDP at current prices
- Includes inflation/pace of rising prices
- Used to compare different quarters of output (in same year)

#### Real GDP (RGDP)

- Inflation-adjusted GDP
- More accurate reflection of the output of an economy than NGDP
- Used to compare GDP of 2 or more years
- Calculated using a GDP Price Deflator
- $(RGDP = NGDP \div \text{GDP Deflator})$

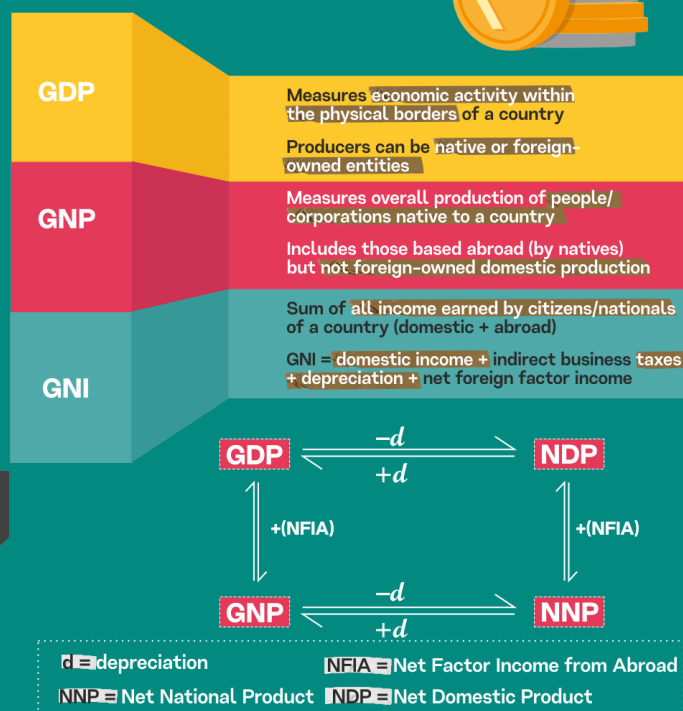
$$\text{GDP Price Deflator} = (NGDP \div RGDP) \times 100$$

**Example: Assume a country that only produces bread**

**Year 2021:** It produced 100 units of bread @ price Rs 10 (each)  
Then, GDP @ current price - Rs 1000

**Year 2022:** It produced 110 units of bread @ price Rs 15 (each)  
Then, GDP @ current price - Rs 1650

**RGDP for year 2022 (base year - 2021) =  $110 \times \text{Rs } 10 = \text{Rs } 1,100$**   
Here, **GDP Deflator** would be -  $1,650 \div 1,100 = 1.50$  (or 150%)



- **Factor Cost (FC)** = Total value of the inputs that go into manufacturing a good
- **Market Price (MP)** = Factor Cost + Indirect Taxes - Subsidies
- $GDP \text{ at FC} = GDP \text{ at MP} + \text{Subsidies} - \text{Indirect Taxes}$
- $GDP \text{ at MP} = GVA \times MP$
- GDP at MP is the measure of GDP in India
- **Gross Value Added (GVA)** = GDP + subsidies on products - taxes on products



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