Measuring Economic Activity

Of all the concepts in macroeconomics, the single most important measure is the gross domestic product (GDP), which measures the total value of goods and services produced in a country. GDP is part of the *national income and product accounts* (or *national accounts*), which are a body of statistics that enable policymakers to determine whether the economy is contracting or expanding and whether a severe recession or inflation threatens. When economists want to determine the level of economic development of a country, they look at its GDP per capita.

While the GDP and the rest of the national accounts may seem to be arcane concepts, they are truly among the great inventions of the twentieth century. Much as a satellite in space can survey the weather across an entire continent, so can the GDP give an overall picture of the state of the economy. In this chapter, we explain how economists measure GDP and other major macroeconomic concepts.

GROSS DOMESTIC PRODUCT: THE YARDSTICK OF AN ECONOMY'S PERFORMANCE

What is the *gross domestic product?* GDP is the name we give to the total market value of the final goods and services produced within a nation during a given year. It is the figure you get when you apply the measuring rod of money to the diverse goods and services—from apples to zithers—that a country produces with its land, labor, and capital resources. GDP equals the total production of consumption and investment goods, government purchases, and net exports to other lands.

The gross domestic product (GDP) is the most comprehensive measure of a nation's total output of goods and services. It is the sum of the dollar values of consumption (C), gross investment (I), government purchases of goods and services (G), and net exports (X) produced within a nation during a given year. In symbols: $GDP = C + I + G + X$

GDP is used for many purposes, but the most important one is to measure the overall performance of an economy. If you were to ask an economic historian what happened during the Great Depression, the best short answer would be:

Between 1929 and 1933, GDP fell from $104 billion to $56 billion. This sharp decline in the dollar value of goods and services produced by the American economy caused high unemployment, hardship, a steep stock market decline, bankruptcies, bank failures, riots, and political turmoil.

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