

Tunde Scrivner

Assignment - GDP & Growth

1. GDP can be measured from the demand side or the supply side. What is the difference?

Gross Domestic Product (GDP) is a macroeconomic variable used to measure the size and the economic growth of a country over time. It measures the total market value of all goods and services produced in an economy in a given year (Greenlaw et al. 21). The GDP of an economy can be measured from the demand side and also from the supply side. To measure GDP from the demand side, we answer the question about who buys all the goods and services a country produces in a year (what is demanded). In contrast, measuring GDP from the supply side answers the question about what is produced (what is sold). The difference is in the components used to measure GDP from the two sides. However, the GDP remains the same whether measured from what is demanded or from what is being sold.

The demand side components used to measure GDP are consumer spending, business spending, government spending, and net exports, also known as the trade deficit. GDP measured from the demand side is given by; $GDP = \text{Consumption} + \text{Investment} + \text{Government} + \text{Trade balance}$, where trade balance is the difference between the exports and imports of an economy. The underlying concept in measuring GDP from the supply side is that we must first produce goods and services before we can sell them and meet the demand. Measuring GDP from the supply side is to determine what is produced by the economy in a year. The components used to

measure GDP from the supply side are durable goods, nondurable goods, services, structures, and the change in inventories. The sum of these five components measures an economy's GDP from the supply side.

2. What do economists mean when they talk about economic growth?

Economic growth is the increase in aggregate production of an economy. It is the increase in a country's real Gross Domestic Product. Economists define economic growth as the overall increase in the real value of all economic activities of a country over a year. Economic growth measures a change in the country's national output, GDP. When the real GDP is increasing, the economy is said to be expanding. However, when the real GDP is declining, the economy is said to be contracting. Economic growth does not measure the welfare of the people in a country. It is not true to say that the welfare of people improves when the GDP increases and worsens when the GDP declines. To achieve economic growth, a country must effectively and efficiently utilize the four factors of production – land, labor, capital, and entrepreneurship.

3. What causes some countries to grow faster than others?

The primary drivers of faster economic growth are capital, labor, and technological advancement. Countries with high capital levels grow faster than countries with low capital levels. This is because countries with high capital can invest in lucrative economic activities that will increase their production of goods and services. Second, labor input is critical in increasing a nation's productivity. A country with an educated and highly skilled labor force grows faster than a country without skilled labor. Third, the level of technology is pivotal in determining any country's growth rate. Technology increases productivity in all sectors of the economy. Therefore, a country with a high level of technology will grow faster than countries with low

technology levels. Other critical factors for faster economic growth are leadership, political stability and maturity, financial stability, and natural resources such as oil and minerals.

Work Cited

Greenlaw, Steven A., et al. "Principles of Micro-economics 2e. for AP® Courses." (2017).