Gross Domestic Product

Nominal and Real GDP

In [economics](http://www.wordiq.com/definition/Economics), the **gross domestic product** (**GDP**) is a measure of the amount of the economic production of a particular territory in [financial capital](http://www.wordiq.com/definition/Financial_capital) terms during a specific time period. It is one of the [measures of national income and output](http://www.wordiq.com/definition/Measures_of_national_income_and_output).

N**ominal GDP** refers to the total amount of [money](http://www.wordiq.com/definition/Money) spent on GDP whereas, **real GDP** refers to an effort to correct this number for the effects of [inflation](http://www.wordiq.com/definition/Inflation) in order to estimate the sum of the actual quantity of goods and services making up GDP.

Reference: Gross Domestic:

http//www.wordiq.com/definition/Gross\_domestic-product-definition

Factors of GDP

## Personal Consumption

* Personal consumption adds up everything spent on durable and nondurable goods, as well as all services. Although the government is a gigantic spender, personal consumption still ranks as the largest part of the GDP, as of 2011. It includes every consumer item people buy, including rent, food, [cars](http://www.ehow.com/info_8231439_factors-gdp.html), gas and luxury items.

## Gross Domestic Investment

* Gross domestic investment includes all money invested in inventory, research and fixed assets. Research is considered investment if money is spent on the higher levels of production, such as product innovation. Transfers of ownership on investment monies, such as stock and bond [purchases](http://www.ehow.com/info_8231439_factors-gdp.html), are not included in GDP because they are already counted in when the organization spends the money. Counting the transfer of money would be redundant and skew the GDP number.

## Net Exports

* The GDP figure includes exports, which are goods and services that are produced locally, but ultimately consumed in foreign countries. To get the net exports of a country, subtract the value of imports from the value of exports. It is necessary to subtract imports because they do not represent output in the domestic economy. Net exports can be positive or negative; if imports exceed exports, net exports are negative. For example, if a country exports $20 billion worth of goods and imports $120 billion, it would have minus $100 billion in net exports. This would be an example of a country with a negative trade balance.

## Government Purchases

* The GDP does not count all government expenditures as income. Welfare, Social Security and other federal programs are not part of government spending that adds to the GDP. The government spends billions of dollars each year on buying military equipment, for instance, which constitutes a type of government expenditure that is income in the GDP. Salaries to the army of workers in the government's executive branch are also included in the GDP.

Reference:: [Factors of GDP | eHow.com](http://www.ehow.com/info_8231439_factors-gdp.html#ixzz1YeKOZP1n) <http://www.ehow.com/info_8231439_factors-gdp.html#ixzz1YeKOZP1n>

Importance of GDP Measures

Measuring GDP is complicated (which is why we leave it to the economists), but at its most basic, the calculation can be done in one of two ways: either by adding up what everyone earned in a year ([income](http://www.investopedia.com/ask/answers/199.asp) approach), or by adding up what everyone spent (expenditure method). Logically, both measures should arrive at roughly the same total.

The income approach, which is sometimes referred to as GDP(I), is calculated by adding up total compensation to employees, gross profits for incorporated and non incorporated firms, and [taxes](http://www.investopedia.com/ask/answers/199.asp) less any subsidies. The expenditure method is the more common approach and is calculated by adding total consumption, investment, government spending and net exports.

As one can imagine, economic production and growth, what GDP represents, has a large impact on nearly everyone within that economy. For example, when the economy is healthy, you will typically see low unemployment and wage increases as businesses demand labor to meet the growing economy. A significant change in GDP, whether up or down, usually has a significant effect on [the stock market](http://www.investopedia.com/ask/answers/199.asp). It's not hard to understand why: a bad economy usually means lower profits for companies, which in turn means lower stock prices. Investors really worry about negative GDP growth, which is one of the factors economists use to determine whether an economy is in a [recession](http://www.investopedia.com/terms/r/recession.asp).

Reference: <http://www.investopedia.com/ask/answers/199.asp#ixzz1YePSHU4q>

What is GDP and why is it so important?

GDP of United States:

The gross domestic product in the year 2007 of United States was $13807.5 billions, which has increased in the year 2008 to $14264.6 billions (BEA, 2009). The increase in the GDP explains the increase in the production of goods and services. The GDP of the United States includes the Personal and Governmental consumption expenditures, domestic capital investment and the net export of the economy. The increase in the GDP was because of the increase in the personal consumption expenditures on the services and also the increase in the State & Local Government's expenditure and investments.

Reference : BEA.(2009). National Economic Accounts. Retrieved September 21, 2011, from http://www.bea.gov/national/index.htm#gd