

2. National Income and National Product (Part 1)

EE 212

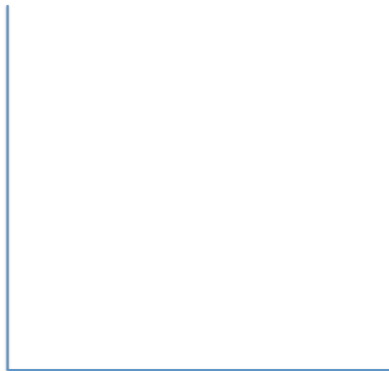
Read: Case & Fair, ch. 6; LCR, ch.3, 22

January 2013

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1. Introduction

- Production Possibility Curve : PPC
 - a curve showing all the possible combinations of that can produce within a specified time period when and



- PPC has slope, why?
- PPC could be a straight line or bowed out from the origin (concave/convex).
- The PPC is more realistic, why?
- Attainable/Unattainable
- Can a PPC shift? How?

- Output Gap

- Potential output (Y^*) : the total output that can be produced when all productive resources - labour and capital equipment in particular- are being used at their normal rates of utilization.
- Actual output (Y)
- Output gap =-.....
- Output gap is positive,
- Output gap is negative,

- Output per capita

- Aggregation problem

Total output =

-

=

Value of total output =

-

=

- Real output VS. Nominal output

- Nominal output measures these values using current prices.
- Real output measure these values using the prices of a base year.

	2005(based year)		2012	
	P	Q	P	Q
Cars	100	192	110	200
Rice	30	900	31	900

Nominal output (2005) =

Nominal output (2012) =

Real output (2005) =.....

Real output (2012) =

- Changes in nominal output can be due to ?
- Changes in real output can be due to ?
- Note that this course we focus on “real income”

2. Meaning and significance of national income accounting

- National income accounting : the study of the methods of measuring the “aggregate output” and “aggregate income” of an economy
- What is counted? \Rightarrow value of **final** goods and services
 - Final goods : Goods and services produced for final use.
 - Intermediate goods : Goods that are produced by one firm for use in further processing by another firm.

- Why do we count only “final goods” ?

- What is included in GDP?
 - Intermediate goods
 - Market activities
 - Unreported activities
 - Illegal activities
 - Second hand goods
 - Transfer payment
 - Value of new stocks/bonds issued by a company
 - Value of stocks traded in the stock market

3. Distinction between GNP and GDP

- Thailand → import some inputs from abroad → output (goods and services)
- Some of Thai factors of production → is used abroad → output (goods and services)

- Gross Domestic Product (GDP) : “Geographic based”
- Gross National Product (GNP) : “Ownership based”

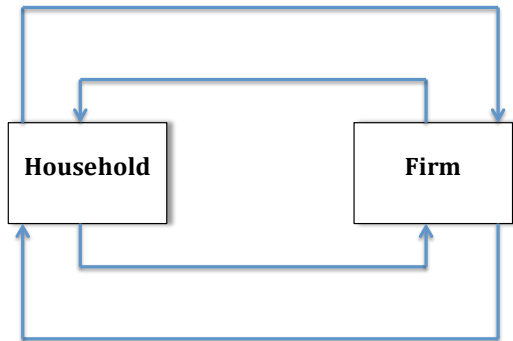
- GDP : the value of final output produced during a given period of time within the borders of a given country.
- GNP : the value of output produced by domestic factors of production, regardless of whether the production takes place.
- $GNP = GDP + \dots\dots\dots$

4. Circular flow of production and expenditure

- Circular flow: A diagram showing the income received and payments made by each sector of the economy.
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- 1 Closed Economy : Firm and Household
 - 2 Closed Economy : Firm and Household + Financial Institution
 - 3 Closed Economy : Firm and Household + Financial Institution + Government
 - 4 Opened Economy : Foreign Sector

- :
 - Own the factors of production, sell/rent them to firms for income
 - Buy and consume goods & services
- :
 - Buy/hire factors of production, use them to produce goods and services
 - Sell goods & services

1. Closed Economy

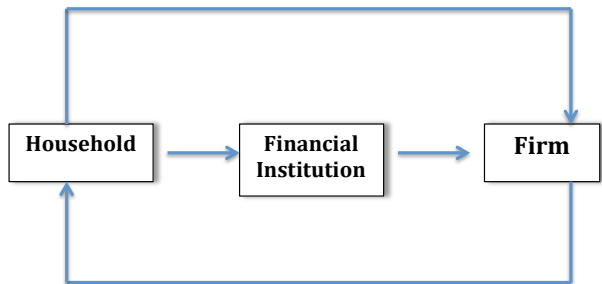


- Goods and Services = =

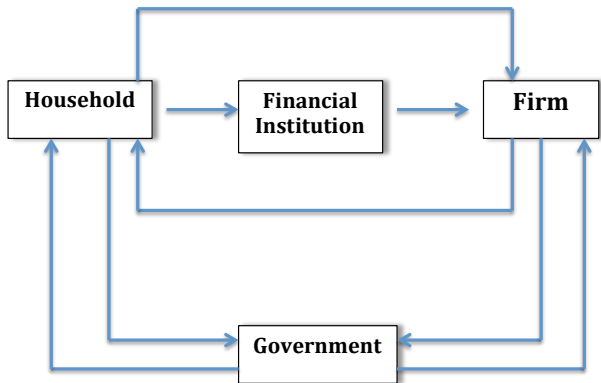
leakages(withdrawals) VS. injections

- Leakage : flow out of the circular flow when resource income is received and not spent directly on purchases from domestic firms
- Injection : added spending in the circular flow that is not paid for out of current resource income

2. Closed economy with financial Institution without government



3. Closed economy with financial institution with government



4. Opened Economy

