2. National Income and National Product (Supplement)

EE 212

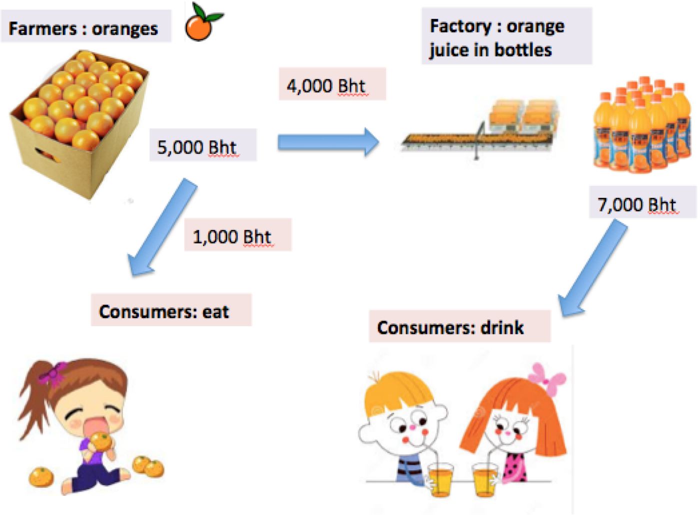
Read: Case & Fair, ch. 6; LCR, ch.3, 22

2016

Distinction between GDP and GNP
Define GDP and explain why the value of production, income, and expenditure are the same for an economy.
Included in National Income (GDP, GNP) this year or not?

- Production of marijuana this year
- Construction of a house this year
- Production of an illegal drug this year
- Commission eared on the sale of a used car
- Value of a used car
- value of traded stock in SET this year
- value of traded bonds this year
- value of deposits this year

- Honda manufactures cars in the U.S., but is incorporated in Japan. The cars it produces in the U.S. are added to .... GDP, but not .... GNP, as these cars use domestic factors of production (labor and resources), but are produced by a foreign nation. Conversely, the values are added to .... GNP, but not .... GDP.
- Another example involves U.S. company Intel who manufactures silicon chips in Ireland. The production from that facility is added to .... GNP, but not .... GDP. When U.S. residents earn more abroad than foreigners earn in the U.S., ... exceeds .... and vice versa


Farmers : oranges
Factory : orange juice in bottles
4,000 Bht
5,000 Bht
1,000 Bht
7,000 Bht
Consumers: eat
Consumers: drink

- Only value of final sale is counted.
- We do not count auto parts in a new car.
- Auto parts in a new car are intermediate goods.

- The tires that come with the car is not counted as a final good.
- However if you get a flat and buy the same tire it is counted as a final good.
- This is confusing. We use “Value Added Approach” to avoid double counting.

- Final goods include both consumption goods and capital goods.

- The equipments used in producing a car are not included in the value of a car as an intermediate goods.
- Newly produced equipments are counted in GDP as final goods.

Farmers : oranges

5,000 M. Bht

Factory : orange juice

Proprietor's income

10 machines worth 1000 M.Baht; depreciation = 2%

..............M.Bht

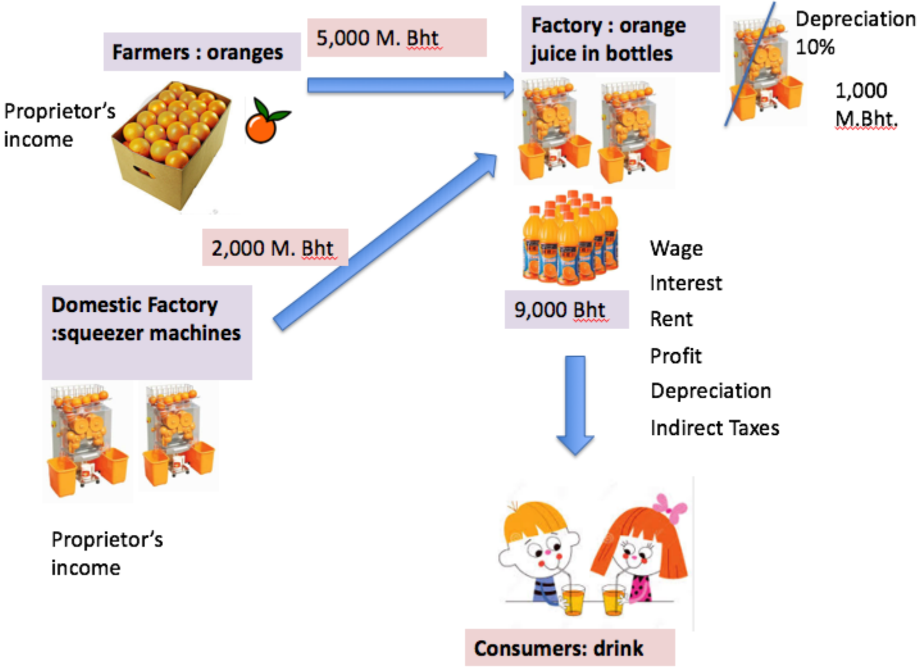
Wage	2,000
Interest	400
Rent	1,500
Profit	600
Depreciation	20
Indirect Taxes	100

Why is the value of orange juice more than the value of orange?

Value added in the production process -> need to employ factor of production.

Value added -> payment to factor of production

Consumers: drink


Farmers : oranges
5,000 M. Bht
Factory : orange juice in bottles
Depreciation 10%
1,000 M.Bht.
Proprietor's income
2,000 M. Bht
Wage
Interest
Rent
Profit
Depreciation
Indirect Taxes
9,000 Bht
Domestic Factory :squeezer machines
Proprietor's income
Consumers: drink