

Subject: Economics

Year: 11

Strand: 3

Sub Strand: 3.1- National Income

Content Learning Outcome: - Describe each component of National Income.

Lesson Notes (Copy strand, sub-strand, content learning outcome and notes in your note book)

- ✓ **Gross Domestic Product (GDP)** - The total value of goods produced and services provided in a country during one year.
- ✓ **Components of GDP**
 1. **Consumption (C)**: consists of goods and services bought by the households.
 2. **Investment (I)**: consists of goods and services bought for future use.
 3. **Government expenditure (G)**: goods and services bought by the government.
 4. **Net exports (X -M)**: takes into account exports to other countries and imports from other countries.
 - ✓ In a closed economy: $(NX = 0)$
 - ✓ 3 sector model equilibrium: $Y = C + I$
 - ✓ 4 sector model equilibrium: $Y = C + I + G$
 - ✓ In an open economy $(NX \neq 0)$
 - ✓ 5 sector model equilibrium: $Y = C + I + G + NX$ (Exports – Imports)

GDP using Expenditure Method

$$GDP = C + I + G + NX \quad \text{OR} \quad C + I + G + (X - M)$$

GDP using Income Method

$$GDP = r + w + i + p + (\text{subsidies} - \text{Indirect tax})$$

r- rent [returns for land]

w- wages [return for labor]

i- Interest [return for capital]

p - profit [return for entrepreneurship]

components of GDP

components of GDP

Nominal GDP (GDP at Current prices): actual numbers in today's dollars value of output of all final goods and services at current prices.

Real GDP (GDP at constant price): adjusted for inflation which allows it to be easily compared to past dollars.

Activity

1. The measure of GDP (Gross Domestic Product) which make adjustments for inflation is known as
A. Real GDP. B. Nominal GDP. C. National Income D. Gross National Income.

2. Consumption as a component of GDP refers to the expenditure of
A. banks. B. household. C. producers. D. government.

3. Nominal GDP measures the value of output of all final goods
A. only at base year prices. C. and services at current prices.
B. only at current year prices. D. and services at constant prices.

4. Distinguish between Nominal and Real GDP.

5. State the formula for calculating GDP using Income and Expenditure method.