



Dr.Nehal Hamdy

beIn Class

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N. Gregory Mankiw & Mohamed H. Rashwan

Principles of Economics

Arab World Edition

Chapter 23 Measuring a Nation's Income

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دخل قومي

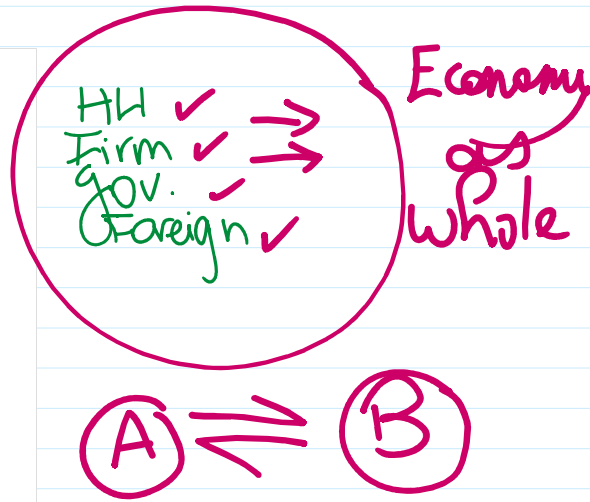
In this chapter, look for the answers to these questions:

- What is Gross Domestic Product (GDP)?
- How is GDP related to a nation's total income and spending?
- What are the components of GDP?
- How is GDP corrected for inflation?
- Does GDP measure society's well-being?

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INTRODUCTION

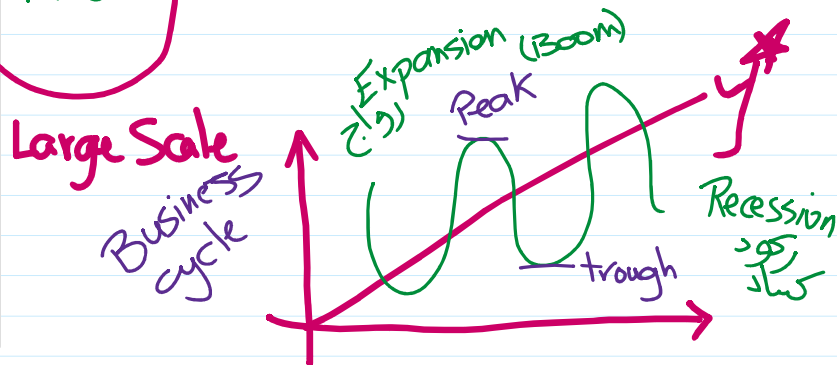
- **Microeconomics:**
The study of how individual households and firms make decisions, interact with one another in markets.
- **Macroeconomics:**
The study of the economy as a whole.
- Microeconomics and macroeconomics are closely linked....
 - Because the economy is a collection of many households and firms interacting in many markets.



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- Examples of questions that microeconomics seeks to answer:
 - How do consumers decide how much of each good to buy?
 - How do firms decide how much output to produce and what price to charge?
 - What determines the price and quantity of individual goods and services?
 - How do taxes on specific goods and services affect the allocation of resources? *distribution*
- Examples of questions that macroeconomics seeks to answer:
 - How do consumers decide how to divide their income between spending and saving?
 - What determines the total amount of employment and unemployment?
 - What determines the overall level of prices and the rate of inflation?
 - Why does the economy go through cycles, where things are great for a few years and then lousy for a year or two?
 - When unemployment is high, what can the government do to help?



ECONOMY'S INCOME AND EXPENDITURE

- **Gross Domestic Product (GDP)** measures the total income of everyone in the economy.
- GDP also measures the total expenditure on the economy's output of goods and services.

For the economy as a whole, **income equals expenditure** because every dollar a buyer spends is a dollar of income for the seller.

دخل القومى = ناتج التوعى

$$GDP = Y_A + Y_B + Y_C$$

OR

$$GDP = E_A + E_B + E_C$$

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- Notes: "g&s" = goods and services
- A good way to judge how well someone is doing economically is to look at his or her **income**. We can judge how well a country is doing economically by looking at the **total income** that everyone in the economy is earning. **GDP is our measure of the economy's total income**, often called **national income**.
- GDP also measures **total expenditure** on the goods and services produced in the economy, and the value of the economy's output (production) of goods and services. Thus, GDP is also referred to as **output**.
- The equality of income and expenditure is an accounting identity (not, for example, an equilibrium condition): it **must** be true that income equals expenditure.

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High Income
Middle Income
Low Income

$$\text{GDP} = \text{National Income} = \text{output}$$

The Circular-Flow Diagram

- The diagram is a simple depiction of the macroeconomy.
- Illustrates GDP as **spending, revenue, factor payments, and income**.
- Preliminaries:
 - Factors of production** are inputs like labor, land, capital, and natural resources.
 - Factor payments** are payments to the factors of production (e.g., wages, rent).

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The Circular-Flow Diagram

Households:

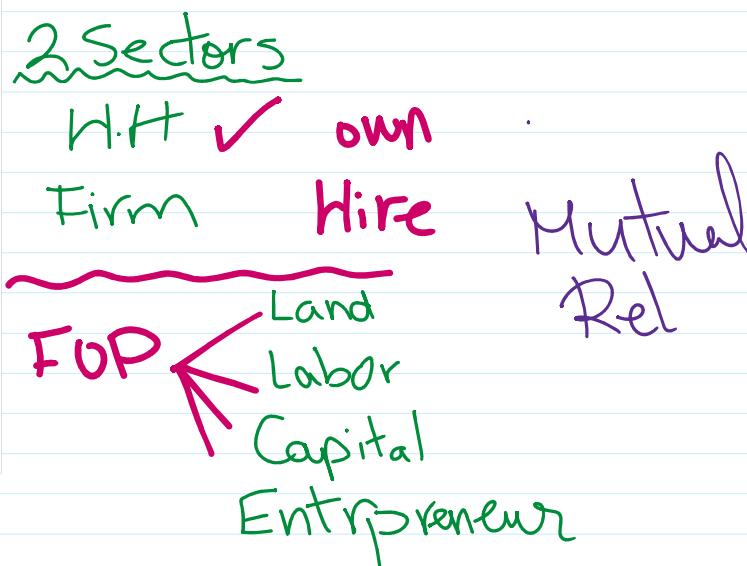
- own** the factors of production, sell/rent them to firms for income.
- buy and consume goods & services.



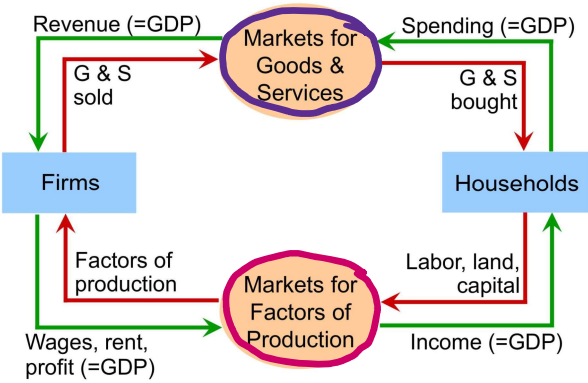
Firms:

- buy/hire** factors of production to produce goods and services.
- sell goods & services.

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The Circular-Flow Diagram



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- In this diagram, the green arrows represent flows of income/payments. The red arrows represent flows of goods & services (including services of the factors of production in the lower half of the diagram).
- To keep the graph simple, we have omitted the government, financial system, and foreign sector, as discussed on the next slide.

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MEASUREMENT OF GROSS DOMESTIC PRODUCT (GDP)



Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.

- Let us look at this definition in fine detail.

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- 1- Mkt value
- 2- Final GYS
- 3- Produced within C.
- 4- period of time

End of part 1