

Term

GDP (Gross Domestic Product)

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Definition

The term "Gross Domestic Product" (GDP) is defined as the market value of all final goods and services produced within a country's borders, even if produced by foreigners, in a given period of time.¹ The GDP measures an economy's ability to produce.

Context

Since the GDP quantifies a country's economic potential, on a per capita basis it is useful as a measure of comparison with competitor countries. It is a widely reported and trustworthy statistic available for national economies. Consequently, it is a useful yardstick by which to measure the relative development of economies.

Formally, GDP is most often expressed as a sum of expenditures. The standard equation is: $GDP = C + I + G + NX$ where C is defined as consumption, I as investment, G as government purchases excluding transfer payments, and NX as net exports.² It express the sum of private and public consumption of domestic goods and services plus the net value of goods and services produced domestically and sold abroad.

The GDP only measures an economy's ability to produce goods and services. Even if adjusted to account for **Purchasing Power Parity**, it is an incomplete measure of the welfare and quality of life of a country's residents. On a per capita basis, it is only a measure of the average contribution of each resident. It does not directly measure income and can not in any way describe country's domestic income distribution. By its very nature, issues concerning Income Inequality are not captured.³

Moreover, environmental degradation, health, happiness, and other measures that contribute to **Quality of Life** are not described by a country's ability to produce goods and services. Nonetheless, GDP remains widely reported and accepted. It is a convenient and increasingly important proxy for a country's development.

Sources

[London School of Economics Glossary](#)

[Economist Intelligence Unit](#)

End.

¹ Wessels, Walter J. Economics. Barron's, New York: 2000.

² *Ibid.*

³ Todaro, Michael P. and Stepehn C. Smith. Economic Development. Pearson, Boston: 2006.