Research Journalof Economics

Editorial

Editorial Announcement

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Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health. Though GDP is typically calculated on an annual basis, it is sometimes calculated on a quarterly basis as well. In the U.S., for example, the government releases an annualized GDP estimate for each fiscal quarter and also for the calendar year. The individual data sets included in this report are given in real terms, so the data is adjusted for price changes and is, therefore, net of inflation. In the U.S., the Bureau of Economic Analysis (BEA) calculates the GDP using data ascertained through surveys of retailers, manufacturers, and builders, and by looking at trade flows. The calculation of a country's GDP encompasses all private and public consumption, government outlays, investments, additions to private inventories, paid-in construction costs, and the foreign balance of trade. (Exports are added to the value and imports are subtracted). Of all the components that make up a country's GDP, the foreign balance of trade is especially important. The GDP of a country tends to increase when the total value of goods and services that domestic producers sell to foreign countries exceeds the total value of foreign goods and services that domestic consumers buy. When this situation occurs, a country is said to have a trade surplus. If the opposite situation occurs—if the amount that domestic consumers spend on foreign products is greater than the total sum of what domestic producers are able to sell to foreign consumers—it is called a trade deficit. In this situation, the GDP of a country tends to decrease. GDP can be computed on a nominal basis or a real basis, the latter accounting for inflation. Overall, real GDP is a better method for expressing long-term national economic performance since it uses constant dollars. For example, suppose there is a country that in the year 2009 had a nominal GDP of $100 billion. By 2019, this country's nominal GDP had grown to $150 billion. Over the same period of time, prices also rose by 100%. In this example, if you were to look solely at the nominal GDP, the economy appears to be performing well. However, the real GDP (expressed in 2009 dollars) would only be $75 billion, revealing that, in actuality, an overall decline in real economic performance occurred during this time.