GROSS DOMESTIC PRODUCT (GDP)

There are several financial terms that are used in the media but few understand what some of these terms mean. In one of our articles we mentioned that the four basic macroeconomic sectors of the economy reflect four key macroeconomic functions and are responsible for four expenditures on gross domestic product (GDP). What is Gross Domestic Product (GDP)?

GDP is the total market value of all final products and services produced in a country over a period of time, usually one year. When economists talk about the "size" of the economy, they are referring to GDP. It is used to estimate the size of an economy and growth rate. It is the most comprehensive measure of an economy's production and one of the most basic measures of it being sound. Production generally involves several transitional steps which involve market exchanges of intermediate goods. GDP measures only the market value of final goods. Final goods are those reaching their final user and include household consumption, business investment capital, government purchases and exports.

GDP can be measured in two different ways using expenditures and resource cost of production. It can be adjusted for inflation and population to provide deeper insights. Though it has limitations, GDP is a key tool to guide policymakers, investors, and businesses in strategic decision making. GDP impacts personal finance, investments, and job growth. Investors look at a nation's growth rate to decide if they should adjust their asset allocation, as well as compare country growth rates to find their best international opportunities. They purchase shares of companies that are in rapidly growing countries.

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