Assignment

Which of the two methods of computing the national economics accounts, the final value method and the value added method is easier to use and why ?

Solution

The value added method sums the "value-added" at each stage of production, where value-added is defined as total sales less the value of intermediate inputs into the production process. For example, flour would be an intermediate input and bread the final product; or an architect's services would be an intermediate input and the building the final product. This method consists of three stages:

- Estimating the Gross Value of domestic Output out of the many various economic activities;

- Determining the intermediate consumption

- Deducting intermediate consumption from Gross Value to obtain the Net Value of Domestic Output.

The final value method adds up the value of purchases made by final users—for example, the consumption of food, televisions, and medical services by households; the investments in machinery by companies; and the purchases of goods and services by the government and foreigners. It can be calculated using the following equation:

$Y = C + I + G + NE$,

Where

C -consumption expenditures by households (consumer spending),

I- gross private investment spending principally by firms,

G-government purchases of goods and services,

NE - net exports (exports minus imports (EX - IM).

It can be difficult to distinguish between intermediate goods and final goods while measuring the national economics accounts using the final value method, so the value added method is easier.