

Answer on Question #40602 – Economics - Macroeconomics

Assignment

Q.

Differentiate between GDP and GNP .What components of GDP if any would each of the following transactions effect? Explain

1. A family buys new refrigerator
2. Anny buys a new house
3. Ford sells a Mustang from its inventory
4. You buy one dozen eggs.
5. Honda expands its factory in Ohio.

Solution

The difference between GDP (Gross Domestic Product) and GNP (Gross National Product) is that GNP includes net foreign income rather than net export and imports. Essentially GNP adds net foreign investment income.

GDP measures the nation's economy's performance because it is determined by the market value of all final goods and services made within the borders of the nation. GDP is focused on output rather than who produced it, GDP measures all domestic production.

$GDP \text{ (Gross Domestic Product)} = C + I + G + (X - M)$

GNP is basically the GDP of the country plus income earned from overseas investments by residents, minus income earned within the domestic economy by overseas residents. GNP is focused on who owns the production regardless of where the production takes place. GNP calculates the value of output produced by the people (nationals) of the region.

The more different GDP and GNP are, the more the country is involved in international trade and finances. A great example of this would be Japan.

1. A family buys new refrigerator - increase of consumption
2. Anny buys a new house - increase in consumption
3. Ford sells a Mustang from its inventory - increase in consumption
4. You buy one dozen eggs - increase of consumption
5. Honda expands its factory in Ohio - increase of investment