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GDP, GNP, NNP, NI

Gross Domestic Product (GDP)

The **value** of all the **finished goods and services** produced within a **country's border** in a **year** is the **GDP** of that country. (read previous post - National Income - Part II)

It generally includes - public and private **consumption**, **government** spending, **investments,** and **net exports** (i.e., **total exports - total imports**).

GDP = consumption + government spending + investments + (exports - imports)

GDP is commonly used as an **indicator** to determine the **economic** health of a **country**.

GDP of India

Nominal GDP of **India** (**October 2014**, by **IMF**) is approx. **USD 2.047 trillion**, which makes **India 10th** largest **economy** of the world (in terms of nominal GDP).

GDP Growth

While discussing about **economic health** of a country, the actual **GDP** (in terms of **monetary value**) is not considered. Instead, **GDP growth** reflects how healthy an **economy** is (you often hear about GDP growth of India is say **5.5 %**, but not say, **USD 2 trillion**)

Note that, if we talk about **GDP growth**, then there should be some **standard** GDP, with **respect to which**, **current** GDP growth will be measured. That standard is determined by **economists**, and the year is referred to as **base year** for calculating **GDP growth** of current year.

New GDP base year

Earlier **2004-05 financial year** was used to determine the **GDP growth** of current financial year. On that basis, **GDP growth** of **India** for **2013-14** was **4.7 %.**
It means, that if **GDP** in **2004-05** were say **Rs. 100**, then the total **GDP** of India in **2013-14** became **Rs. 104.7**.

Central Statistical Office (CSO) under **Ministry of Statistics &Programme Implementation (MOSPI)** has changed the **base year** to **2011-12** (from that **2004-05**). And with respect to the **GDP** of **2011-12**, Indian **economy** grew by **6.9 %** in **2013-14**.

Role of Inflation/Deflation

GDP is calculated with the **market prices** of finished goods and services of an **economy** (read previous post on **methods of measurement**). Therefore it is influenced with the **inflation** (or, **deflation**) of the economy.

Therefore, it is required to correct the **GDP** by removing the **influence** of **Inflation** or **Deflation**. Depending on this, **GDP** is of **2 types** -

1. **Nominal GDP** - **GDP** without adjusting the **inflation** or **deflation** influences. Therefore, it can be misleading, because **inflation** can make **GDP** look **higher**, while **deflation** can make it look **lower** than the **actual GDP**.
2. **Real GDP** - **GDP** with adjusted (removed) **inflation** or **deflation**. It depicts the actual **GDP** of an economy.

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