How are national income, expenditure and product measured? What difficulties can be encountered in their measurement and interpretation? Discuss the usefulness of these measures as aids to decision making for governments and business.

Introduction:

Nowadays, governments and companies have to cope with a lot of changes occurring in their external environments. This is the reason why, the measurement of national income, expenditure and product can be used as aids to decision making by governments and businesses. There are a lot of difficulties that companies face during the process of measurement. This is essay going to provide information about the three types of measuring Gross Domestic Product (GDP). GDP itself is 'the value of aggregate or total production of goods and services in a country during a given period of time – usually year' (M. Parkin, M. Powell and K. Matthews 1997, p.576). The three methods of measuring GDP are product, income and expenditure method. To explain them I will support it with a lot of theory and examples. It will also explain how these measurements contribute for decision making in governments and business.

Three Methods of Measuring GDP:

A) Product method

The first method of measuring GDP is called the product method. It is focused on firms and adds up all their production. In other words, it calculates the value of all the goods and services in one country, industry by industry (Sloman 2000, p.432). More specifically, this method simply includes adding up all the services and goods produced in one country during the year. For example, all the production of: cars, clothes, perfumes, cell phones, etc.; and services such as: insurance services, football matches, etc. All of these outputs and services are grouped together in wide categories, such as manufacturing, construction and distribution.