

**Lecture Notes: National Income & Product Accounts (NIPA)**

**National Income Accounting**

Definition of recession: negative GDP (Gross Domestic Product) growth for 2 consecutive quarters

"GDP growth = good"

Why?

- people wealthier
- population growth – more people share

Excessively rapid growth → inflation

Managing growth (done by Federal government, Central Banks):

- Monetary policy (interest rates / money supply)
- Fiscal policy (taxation / government spending)

What does GDP really measure? Economic well-being or health?

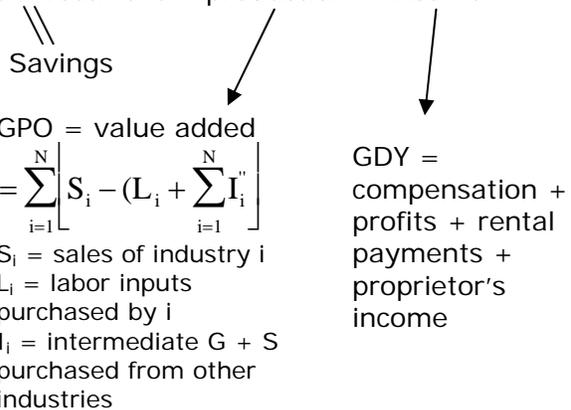
National Income & Product Accounts (NIPA):

GDP = C + I + G + X = consumption + gross investment = production = income

where:

- C = Personal consumption
- I = Net private investment
- G = Government purchases
- X = Net exports

- NDP = net domestic product  
= GDP – capital depreciation
- GNP = gross national product,  
includes overseas activities  
of "US" firms



Therefore, GDP measures the level of money flowing through the economy per year, defined as either:

- consumption
- production (value added)
- income

How good a measure is it of sustainable economic activity? Of true economic well-being?

NDP is a bit better, but:

- some of NDP is due to drawing down resource stocks
- N/GDP does not include non-market value added
- N/GDP includes negative or defensive expenditures

Example:

Gallon of oil extracted, refined, sold at station and used in vehicle.

NDP includes \$1.30 for final sale of gas (so by NDP measure, more oil used is better), but:

- nation is poorer by oil extracted
- environmental amenities reduced? Drilling, production, transport
- money spent cleaning up, time in cars/delays, cost of pollution of air from combustion → all boost GDP

Solutions?

- asset "satellite" accounts to track resource stocks
  - o changes in "market" resource stocks
    - non-renewable (minerals...)
    - renewable (timber, fish...)
  - o changes in non-market resources (more controversial)
    - clean air
    - clean water

BEA efforts underway for years on mineral accounts, but political opposition – coal states.

UN, European nations are further along on this

- we know how to do it better, but...

Indices of true economic welfare:

- "quality of life" measures
- arbitrary, but so is NDP
- tend to show flat/declines since 1970s

→ Optimal scale of human activity?

Unclear, but perpetual growth? Of what?

Ecological economics – measure material + energy flows rather than \$

Growth from efficiency, not more raw material throughput