THE FACTORS WHICH IMPACTS TO GDP: UNEMPLOYMENT AND TAXES

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Abstract. One of the man indicators of one country's economy is a GDP, the indicator of the condition of the population is GDP per capita. Everyone—investors, politicians, and citizens—is impacted by the strength of global and local economies, and GDP is a critical measurement of an economy's size, performance, and general health. GDP stands for gross domestic product, which represents the total monetary value, or market value, of finished goods and services produced within a country during a period, typically one year or quarter. In this sense, it's a measurement of domestic production and can be used to measure a country's economic health. Nominal GDP accounts for current market prices without factoring in deflation or inflation, meaning it tracks general changes in an economy's value over time. Real GDP factors in inflation and accounts for the overall rise in price levels, so it's more accurate for calculating a country's economic health.
Keywords:

Components of GDP. Consumption represents the sum of goods and services purchased by citizens—such as retail items or rent—and it grows as more is consumed. It's the largest component of GDP. Typically, professionals view a steadily increasing consumption as a sign of a healthy economy because it signifies consumer confidence in spending versus uncertainty in the future and lack of spending.

Investment refers to any domestic investment, or capital expenditures, in new assets that will provide future benefits. To invest in business activity, companies spend money on purchasing equipment, inventory, and building new establishments. The difference between consumption and investment is the period over which the purchased good or service provides benefits to its purchaser.

Investment is important because higher levels of it increase productive capacity and boost employment rates.

Government represents the money (consumption expenditure and gross investment) spent by the government on goods and services, such as education, transportation, military, or infrastructure. This spending is funded by taxes and companies or borrowed. To run at a surplus instead of a deficit, the government needs to collect more money than it spends.

Government spending becomes even more important to consider in the wake of a recession when consumer spending and business investment dramatically decline.

The exports – imports piece of the equation refers to the exports of goods and services produced within the domestic economy and sold abroad, minus the imports purchased by domestic consumers. This includes all expenditures by companies geographically located within the country.

If the country's export (X) is greater than the value of its imports (M), the net value is positive, and the country has a trade surplus. Likewise, if M is greater than X, the country is running a trade deficit.

Keep in mind that GDP ratios aren't directly comparable between the United States and other countries, but the equation, metrics, and information used to calculate GDP are similar across the globe.

Due to technological progress, average productivity of resources (including manpower) has gone up in most industrialised countries.

The increased leisure available to the workers allows them to enjoy more recreation in the form of weekend terms and pursuing cultural activities.

Their activities are, no doubt, welfare- enhancing in nature. But their extra hours of leisure are not priced in markets and, therefore, do not get reflected in GDP.

All economically important activities are not bought and sold in market. With a few exceptions, such as government services, non-marketed economic activities are omitted from GDP. An example is unpaid housekeeping services. Another example is voluntary services of NGOs such as volunteer free service and education services offered free of cost to poor children in slums. Such unpaid and un-priced services, no doubt, increase social welfare. But they are omitted from GDP, because it is difficult to estimate their market values.

Many activities are performed unofficially. The underground economy includes both legal and illegal activities from informal (private) nursing, house cleaning or child care to organised crime. House cleaners or plumbers are paid in cash. Such transactions go unnoticed by the tax authorities. However, such activities have a welfare implication. No doubt, they may enhance or reduce social welfare.

hina and India have recently achieved tremendous growth in real GDP and are cited as two models of globalisation. But in expanding their manufacturing base, both countries have also suffered from a severe decline in air and water quality.

Increased pollution certainly reduces the quality of life. But because air and water quality are not bought and sold in markets, the Indian GDP does not reflect this downside of its economic growth.

The explanation of finite (non-renewable) natural resources also tends to be overlooked in GDP. If more oil is extracted today, less oil will be available in future. But this fact is not reflected in GDP.

Incorporating factors like air quality and resource depletion into a comprehensive measure of GDP is difficult, since it often involves placing a rupee on intangibles, like having a clean river to take water instead of a dirty one. But the fact that the benefits of environmental quality and resource conservation are not measured in terms of money, does not mean that they are unimportant.

Various factors make a particular town or city an attractive place to live. Some of these desirable features get reflected in GDP: spacious, well-constructed homes, good star hotels and restaurants, a variety of entertaining and high-quality medical services. However, other indicators of good life are not sold in markets and so may be omitted from GDP.

With increase in per capita income, the incidence of poverty often goes up. So, social welfare diminishes. This is what has happened in India over the plan period. Although India has achieved a satisfactory growth rate in recent years, the planners have failed to alleviate poverty in 56 years.

Even though a dent has been made on poverty in recent years due to financial assistance from the World Bank and the IMF, the degree of income inequality has increased rather than diminished even though the growth rate has picked up.

Moreover, GDP measures the total quality of goods and services produced and sold in an economy, but it conveys no information about who enjoys those goods and services. Two countries may have identical GDPs but differ markedly in the distribution of economic welfare across the population.

Furthermore people's economic satisfaction depends not only on their absolute economic position — as measured by the quantity and quality of food, clothing and shelter they have but on what they have compared to what others have.

To the extent that such comparisons affect people's well-being, inequality (relative poverty) matters as well as absolute poverty. Again, since GDP focuses on total production rather than actual distribution of output, it does not capture the effects of inequality.

Economic growth is one of the key macroeconomic variables and is closely monitored by both policy makers and the public. Alongside with inflation, the exchange rate and the unemployment rate it helps to create an overview picture of a country's economy and its level of development. For the measurement of the economic growth, usually data regarding gross domestic product are used, because it quantifies the total income of everyone in the economy. From a neoclassical point of view the underlying factors that affect economic growth are saving, population growth and technological process. The rate of unemployment is another key macroeconomic variable because it shows how well an economy is using its resources. Unemployment cannot be zero even if the economy it's operating at full capacity because of the frictional and structural unemployment. Frictional unemployment is determined by the time spent to match workers and jobs. This period can vary quite a lot because of imperfect information regarding job vacancies, relative geographic immobility of the workers and wage rigidity. Sectoral shifts appear quite often in an economy, because the demand for goods shifts over time. Thus, it will take time for the workers to adjust to this sectoral shift. The natural rate of unemployment is defined as the rate of unemployment at which the economy is operating at its full capacity.

The correlation between real GDP growth and unemployment is very important for policy makers in order to obtain a sustainable rise in living standards. If GDP growth rate is below its natural rate it is indicated to promote employment because this rise in total income will note generate inflationary pressures. In contrast, if the GDP growth is above its natural level, policy makers will decide not to intensively promote the creation of new jobs in order to obtain a sustainable growth rate which will not generate inflation.

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