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B.A.Part-1(Hons.)

(Paper-2)

Expenditure Method

The expenditure method is the most widely used approach for estimating GDP, which is a measure of the economy's output produced within a country's borders irrespective of who owns the means to production. The GDP under this method is calculated by summing up all of the expenditures made on final goods and services. There are four main aggregate expenditures that go into calculating GDP: consumption by households, investment by businesses, government spending on goods and services, and net exports, which are equal to exports minus imports of goods and services.

The Formula for Expenditure GDP is:

\begin{aligned} &GDP = C + I + G + (X - M)\\ &\textbf{where:}\\ &C = \text{Consumer spending on goods and services}\\ &I = \text{Investor spending on business capital goods}\\ &G = \text{Government spending on public goods and services}\\ &X = \text{exports}\\ &M = \text{imports}\\ \end{aligned}

$GDP=C+I+G+(X-M)$**where:**C=Consumer spending on goods and services$I$=Investor spending on business capital goods$G$=Government spending on public goods and services$X$=exports$M$=imports

Main Components of the Expenditure Method
In the United States, the most dominant component in the calculations of GDP under the expenditure method is consumer spending, which accounts for the majority of U.S. GDP. Consumption is typically broken down into purchases of durable goods (such as cars and computers), nondurable goods (such as clothing and food), and services.

The second component is government spending, which represents expenditures by state, local and federal authorities on defense and nondefense goods and services, such as weaponry, health care, and education.

Business investment is one of the most volatile components that goes into calculating GDP. It includes capital expenditures by firms on assets with useful lives of more than one year each, such as real estate, equipment, production facilities, and plants.

The last component included in the expenditure approach is net exports, which represents the effect of foreign trade of goods and service on the economy.