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(Paper-2)

Expenditure Method

Expenditure Method vs. Income Method

The income approach to measuring gross domestic product is based on the accounting reality that all expenditures in an economy should equal the total income generated by the production of all economic goods and services. It also assumes that there are four major factors of production in an economy and that all revenues must go to one of these four sources. Therefore, by adding all of the sources of income together, a quick estimate can be made of the total productive value of economic activity over a period. Adjustments must then be made for taxes, depreciation, and foreign factor payments.

The major distinction between each approach is its starting point. The expenditure approach begins with the money spent on goods and services. Conversely, the income approach starts with the income earned (wages, rents, interest, profits) from the production of goods and services.

Limitation of GDP Measurements

GDP, which can be calculated using numerous methods, including the expenditure approach, is supposed to measure a country's standard of living and economic health. Critics, such as the Nobel Prize-winning economist Joseph Stiglitz, caution that GDP should not be taken as an all-encompassing indicator of a society's well-being, since it ignores important factors that make people happy.

For example, while GDP includes monetary spending by private and government sectors, it does not consider work-life balance or the quality of interpersonal relationships in a given country.

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