

Measuring Domestic Output and National Income

“Disposable Income Flat.”

“Personal Consumption Surges.”

“Investment Spending Stagnates.”

“GDP Up 4 Percent.”

These headlines, typical of those found on Yahoo! Finance or in The Wall Street Journal, give knowledgeable readers valuable information on the state of the economy. This chapter will help you interpret such headlines and understand the stories reported under them. Specifically, it will help you become familiar with the vocabulary and methods of national income accounting. Such accounting enables economists to measure the long-run rate of economic growth and identify the recessions and expansions associated with the economic ups and downs known as the business cycle.