

# Difference Between Economic Growth and GDP

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## Key Difference – Economic Growth vs GDP

The economic condition of a country is measured by various methods, and this is important to rank countries according to economic stability. Economic Growth and GDP (Gross domestic product) are two measures used to indicate the economic condition of a country. The key difference between economic growth and GDP is that **economic growth is the increase in the ability of an economy to produce goods and services over time** whereas **GDP is the monetary value of all goods and services produced in a period.**

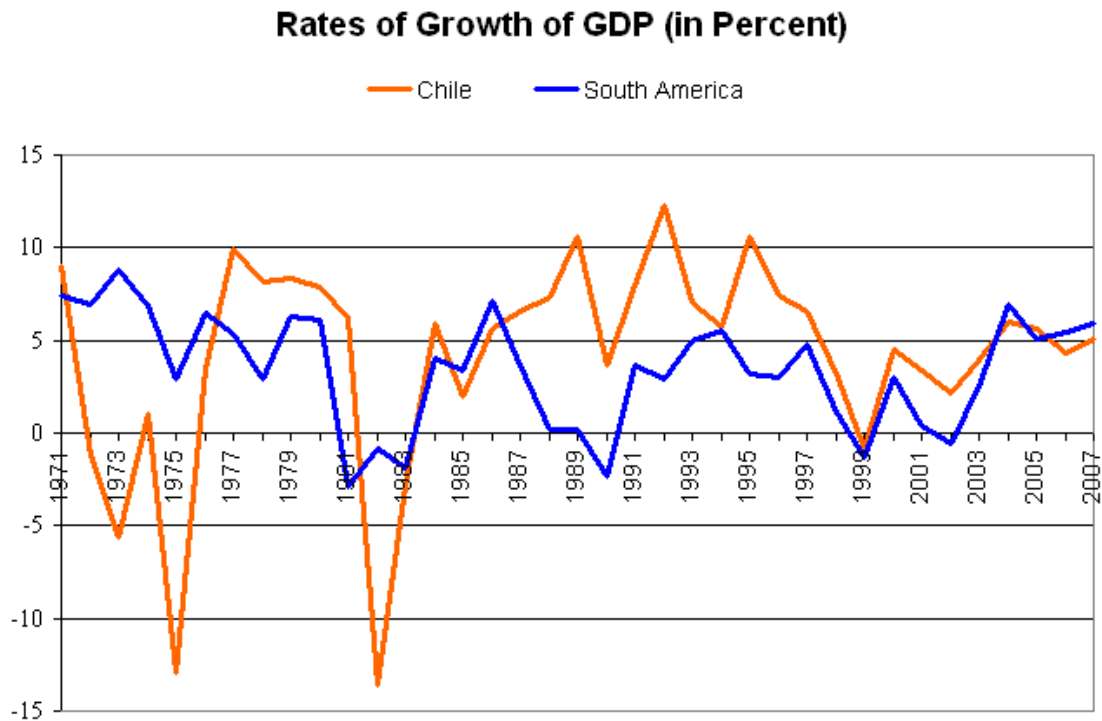
## What is Economic Growth?

Economic growth is the increase in the ability of an economy to produce goods and services over time. In other words, economic growth is the rise in aggregate productivity of an economy. This is measured through the rise in the GDP. Therefore, this is also known as the GDP growth. Economic growth can be compared between two periods of time and also over many years to understand the overall trend in growth. The rate of economic growth can be expressed in nominal or real terms; the latter is adjusted for [inflation](#).

$$\text{Economic Growth Rate} = (\text{GDP in year 2} - \text{GDP in year 1}) / \text{GDP in year 1} * 100$$

E.g. Denmark reported a GDP of \$227m and \$260 in 2015 and 2016 respectively. Economic growth rate over the two-year period is 14.5%  $(260-227 / 227*100)$

Since economic growth depicts an increase in GDP, any factor that results in a boost in GDP positively contributes to economic growth. The increase in consumer spending, government spending, increase in employment and low cost of production can be listed as the main factors that secure economic growth.



**Figure 01: Economic Growth**

If a country is able to maintain an upward trend in GDP, it serves as a favorable economic condition. If the economic growth rate remains negative for two consecutive quarters; then the economy is said to be in a recession. Negative economic growth can be a result of factors such as natural disasters, unstable political situation, and rise in cost of production.

E.g. During the 2008 economic crisis, many countries experienced negative economic growth that lasted more than two consecutive quarters

## What is GDP?

GDP (Gross domestic product) is the monetary value of all goods and services produced in a period (quarterly or yearly). In GDP, the output is measured as per geographical location of production. GDP per capita can be arrived by dividing the GDP by the total population in the country. GDP is the most broadly used yardstick to measure economic performance. The following formula can be used to calculate GDP.

$$\text{GDP} = C + G + I + \text{NX}$$

Where,

C= consumer spending

G= government spending

I= investment

NX= net exports (Exports – Imports)

Due to the inclusion of above components, it can be concluded that GDP is a measure with great use and provides a fairly well indication of the economic condition in a country. GDP indeed is the most widely used economic measure in all countries, and this makes it convenient to compare results among countries. Further, this is used as an indicator of [standard of living](#), where higher the GDP, higher the standard of living if the country's citizens.

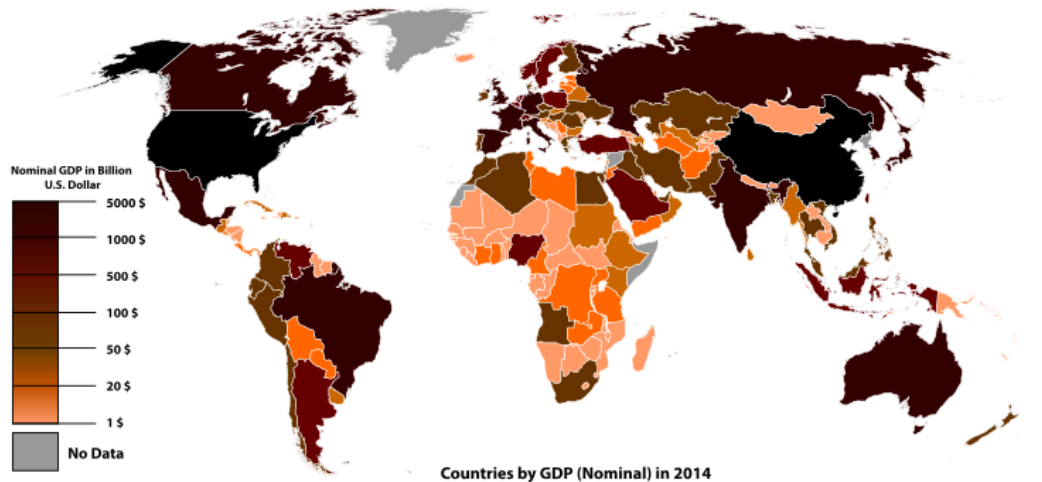


Figure 02: GDP

However, similar to all other measures, it should be noted that GDP is not without its limitations. Some of the most significant ones are that GDP,

- Excludes the value of unpaid volunteer work
- Does not consider how the wealth of the country is distributed
- Does not take into account the value of products and services produced by the citizens of a country who are resident in other countries. This limitation is addressed via the [Gross National Product \(GNP\)](#)

## What is the difference between Economic Growth and GDP?

Economic Growth vs GDP	
Economic growth is the increase in the ability of an economy to produce goods and services over time.	GDP is the monetary value of all goods and services produced in a period.
Nature of Presentation	
Economic growth rate is calculated as a percentage.	GDP is an absolute value.
Comparison	
Since it is expressed as a percentage, economic growth is easy to compare.	GDP is difficult to compare in its original form; however, GDP per capita serves as a meaningful comparison tool.

### Summary – Economic Growth vs GDP

The difference between economic growth and GDP is not a very distinct one since both are closely related. Economic growth is the measure of how well and how fast an economy produces goods and services, where the monetary value of all goods and services produced in a period is arrived through the GDP. An upward trend in economic growth rate and an increasing GDP indicates a positive sign of an economy.

#### References:

- 1."Economic Growth." Investopedia. N.p., 02 Oct. 2014. Web. [Available here](#). 07 July 2017.
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