

Intermediate Goods

Intermediate goods are referred to as those goods that are used by businesses in producing goods or services. These goods are also known as producer goods.

In other words, intermediate goods are used for producing final goods or consumer goods or it can be said that they act as inputs in other goods and constitute the final goods as an ingredient.

Intermediate goods can be produced by a company for the creation of final goods or finished goods, or it can be sold by the company to some other business that deals with production of final goods.

These goods are also called semi-finished goods. Intermediate goods can be used in three ways, which are

1. Produced and used for self.
2. Produce intermediate goods and sell them to other businesses.
3. Purchased by companies for specific use or for creating another intermediate product.

Intermediate goods can become part of the final product or they may get changed beyond recognition during the production process for creating finished goods.

Points on intermediate goods

1. These are purchased by one production unit from another production unit. These goods stay within the production boundary.
2. These goods have derived demand as their demand depends on the demand for the final goods.
3. The value of these goods is added with the value of the final goods.

Intermediate good and Gross Domestic Product

Intermediate goods are not included in the calculation of a country's GDP. The reason for not including them in GDP would be counting the value of the goods twice and the norm is to count the price of final goods only once.

How to classify goods as intermediate and final goods

The best way to classify goods as intermediate or final goods is done on the basis of the use of that product and not on the basis of the product itself.

Any commodity based upon its nature of use can be either classified as a final good or intermediate good.

This can be understood better with the help of an example

Salt is used for making bread and salt used for direct consumption are examples of salt as an intermediate good and final good.

As salt used in preparation of bread acts as an intermediate good while salt for direct consumption is classified as a final good.