**ECONOMICS**

**GDP Worksheet**

***A. Components of GDP: Fill in the blank with the component of GDP each of these items would fit into.***

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A mechanic repairs a transmission.

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A business purchases computer software and a PC.

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A local library purchases new audio books.

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A retailer purchases tennis shoes from a Chinese manufacturer

then sells them.

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A mother purchases the same shoes from the retailer.

**Write one more example for each of the four components.**

1. Consumer Spending \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Investment \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Government Spending \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Net Exports \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Explain why the sale of used goods is not included in GDP:

**B. Nominal and real GDP**

**You are an economist who has been asked to calculate your nation’s GDP, which produces only three goods/services. Calculate nominal GDP for Year 1 and Year 2. GDP = Price x Quantity.**

|  |  |  |  |
| --- | --- | --- | --- |
|  Year 1 Nominal GDP  |   |  Year 2 Nominal GDP  |  |
| Good Price Quantity  | GDP  | Good Price Quantity  | GDP  |
| Oil changes $ 15 5  | \_\_\_\_\_\_\_  | Oil Changes $ 18 6  | \_\_\_\_\_\_  |
| Hamburgers $ 2 20  | \_\_\_\_\_\_\_  | Hamburgers $ 3 25  | \_\_\_\_\_\_  |
| MP3 players $150 3  | \_\_\_\_\_\_\_  | MP3 players $175 5  | \_\_\_\_\_\_  |
|  TOTAL:  | \_\_\_\_\_\_\_  |  TOTAL:  | \_\_\_\_\_\_  |

1. How much did nominal GDP increase from Year 1 to Year 2? \_\_\_\_\_\_\_\_\_\_\_\_

**Now calculate Year 2 real GDP using Year 1 as the base year**

**(that means you use Year 1 prices to calculate Year 2’s GDP**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year 1 Real GDP  |   |   | Year 2 Real GDP (Year 1 base year)  |  |
| Good Price  | Quantity  | GDP  | Good Price Quantity  | GDP  |
| Oil changes $ 15  |  5  | \_\_\_\_\_\_\_  | Oil Changes $ 15 6  | \_\_\_\_\_\_  |
| Hamburgers $ 2  | 20  | \_\_\_\_\_\_\_  | Hamburgers $ 2 25  | \_\_\_\_\_\_  |
| MP3 players $150  |  3  | \_\_\_\_\_\_\_  | MP3 players $150 5  | \_\_\_\_\_\_  |
|   | TOTAL:  | \_\_\_\_\_\_\_  |  TOTAL:  | \_\_\_\_\_\_  |

1. How much did Year 2’s nominal GDP overstate GDP in Year 2 when compared to real GDP? \_\_\_\_\_\_
2. How much did real GDP increase from Year 1 to Year 2? \_\_\_\_\_\_\_
3. Why is it important to adjust nominal GDP to real GDP to account for inflation?

**C. Assume that a country has a closed economy with only three goods/services (no next exports). In a given year, the economy produces: a) three haircuts at $10 each; b) two factory machines at $100 each; and c) one highway repair that costs $500.**

|  |  |  |
| --- | --- | --- |
| 15. | What is total GDP for this economy? | \_\_\_\_\_\_\_\_\_\_\_  |
| 16. | What percent of GDP is consumption? | \_\_\_\_\_\_\_\_\_\_\_  |
| 17. | What percent of GDP is investment? | \_\_\_\_\_\_\_\_\_\_\_  |
| 18. | What percent of GDP is government spending? | \_\_\_\_\_\_\_\_\_\_\_  |
|  |  |  |

1. Suppose an economy’s nominal GDP increased 3 percent in 2008. Why is this information alone not enough to determine whether the economy experienced economic growth? What other information would you need to determine that?
2. Why is GDP not a true measure of the standard of living? What other factors should be considered when determining a country’s standard of living?