**Topic 1B: Gross Domestic Product**

**LVL 1: As you read, answer the following questions**

1. What is included in GDP?
2. What is included in consumer spending?
3. What is included in investment spending?
4. What is included in government spending?
5. How do they calculate net exports?

**SSEMA1 Illustrate the means by which economic activity is measured.**

Economic activity derives from the sectors of the economy we explored in the fundamentals and microeconomics domains. Individuals, businesses, markets, and governments all interact to create a country’s economy. The degree of strength or weakness of all economic activity in an economy will affect the individual components of that economy. For this reason, public and private entities constantly measure specific types of economic activity and synthesize the data to create a picture of the economy’s health. The pictures drawn by the data inform policy makers who may choose to intervene in the economy to meet economic goals.

1. **Define Gross Domestic Product (GDP) as the sum of Consumer Spending, Investment, Government Spending, and Net Exports (output expenditure model).**

**Gross Domestic Product (GDP**) is the sum of consumer spending, investment spending, government spending, and net exports. **Consumer spending** refers to the monetary value of what households spend on final goods and services in the product market in a given time period. **Investment** includes the monetary value of final capital goods businesses purchase in a given time period, the value of inventories produced by businesses, but not yet sold, by the end of the measurement time period, and the value of new home construction produced in the given time period. **Government spending** is the monetary value of any spending on final goods and services by a local, state, or national government in a given time period. **Net exports** refers to the monetary value of all final goods and services produced in one country but sold outside the country’s borders minus the monetary value of all final goods and services produced outside the country’s borders but sold within the country in a given time period. In other words, the value of a country’s exports minus the value of a country’s imports in a given time period. This method of calculating a country’s GDP is the **Output Expenditure Model**.

**LVL II Consider the following questions**

1. What is not considered as part of GDP?
2. What would you expect to be the largest part of GDP in a command economy?
3. What would you expect to be the largest part of GDP in a market economy?

**LVL III Do the Following**

1. **Calculate the GDP for country X.**

|  |  |
| --- | --- |
| **Category** | **Spending in millions of dollars** |
| **Consumer spending** | **502** |
| **Government spending** | **230** |
| **investment** | **300** |
| **exports** | **120** |
| **imports** | **200** |

The GDP for country X is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Determine for each situation, if it is included in GDP and which category of GDP each is calculated as part of: C, I, G, or Xn**.**

If it is included in GDP, calculate the total.

|  |  |  |
| --- | --- | --- |
| Situation | Part of GDP (Yes or NO) | Component of GDP |
| **$10.00 for movie tickets** |  |  |
| **$5M Increase in defense expenditures** |  |  |
| **$45 for used economics textbook** |  |  |
| **Ford makes new $2M factory** |  |  |
| **$20K Toyota made and sold in Mexico** |  |  |
| **$10K Profit from selling stocks** |  |  |
| **$15K car made in US, sold in Canada** |  |  |
| **$10K Tuition to attend college** |  |  |
| **$120 Social Security payment to Bob** |  |  |
| **Farmer purchases new $100K tractor** |  |  |