WHAT'S IN GDP?
STUDENT HANDOUT

ACTIVITY 1: Components of GDP
Which component of GDP would each of these fit into?

> 1) Consumption (households)
> 2) Investment (businesses)
> 3) Government Spending
> 4) Net Exports

1. _____ Mechanic fixes a transmission

2. _____ A business purchases computer software and a PC

3. _____ A local library purchases new audio books

4. _____ A retailer purchases tennis shoes from a manufacturer in China and sells them

5. _____ Mother purchases those tennis shoes from the retailer

Write one more example of each of the four components.

6. _____ Consumption

7. _____ Investment

8. _____ Government spending

9. _____ Net exports

10. Explain why the sale of used goods is not included in GDP._____
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ACTIVITY 2: 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 nomincal GDP for Year 1 and Year 2. GDP = price x quantity.

Year 1 Nominal GDP				Year 2 Nominal GDP			
	Price	Quantity	GDP		Price	Quantity	GDP
Oil changes	$15	5	$75	Oil changes	$18	6	$108
Hamburgers	$2	20	$40	Hamburgers	$3	25	$75
MP3 players	$150	3	$450	MP3 players	$175	5	$875
		Total	$565			Total	$1,058

11. By how much has GDP increased from Year 1 to Year 2? _____

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

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Year 2 Real GDP			
	Price	Quantity	GDP
Oil changes	$15	6	$90
Hamburgers	$2	25	$50
MP3 players	$150	5	$750
		Total	$890

12. By how many dollars was nominal GDP overstating GDP in Year 2? _____

13. How much has real GDP increased from Year 1 to Year 2? _____

14. Why is it important to adjust nominal GDP for inflation? _____

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ACTIVITY 3: Other Measures of Standard of Living

Economists often use real GDP over the long run to understand changes in a nation's economic growth. Real GDP tends to increase as a nation's standard of living improves; however, GDP does not capture some very important social measures. For example, other factors that can give insight into a population's well-being are income distribution, the literacy rate, the mortality rate, and life expectancy.

Using the Internet, investigate one of the following measures of the standard of living in a country:

- Gini Coefficient
- Human Development Index
- Human Poverty Index
- Gross National Happiness

Create a presentation for your classmates about your standard of living measure. As part of your presentation, address the following issues:

1. How is the measure calculated? That is, what factors does it include?
2. What are the advantages and disadvantages of the measure?
3. Evaluate the measure's effectiveness in determining a country's standard of living.

ACTIVITY 4: Assessment

1. Assume that a country has a closed economy that has only three goods/services. That is, there is no trade with other countries, so the economy has consumption, investment, and government spending, but no net exports. In a given year, the economy produces

   - three haircuts that cost $10 each
   - two factory machines that cost $100 each
   - one highway repair that costs $500

1a. What is total GDP for this economy? _____

1b. What percent of GDP is consumption? _____

1c. What percent of GDP is investment? _____

1d. What percent of GDP is government spending? _____

2. 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?

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3. Why is GDP not the best measure of standard of living? What other factors should be considered when one determines a country's standard of living relative to other countries?

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