

WHAT'S IN GDP?

STUDENT HANDOUT

ACTIVITY 1: Components of GDP

Which component of GDP would each of these fit into?

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. _____

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 nominal GDP for Year 1 and Year 2. $GDP = \text{price} \times \text{quantity}$.

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.

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? _____
