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. _______________________________________
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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 nominal GDP for Year 1 and Year 2. GDP = price x quantity.

<table>
<thead>
<tr>
<th></th>
<th>Year 1 Nominal GDP</th>
<th></th>
<th>Year 2 Nominal GDP</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Price</td>
<td>Quantity</td>
<td>GDP</td>
<td>Price</td>
</tr>
<tr>
<td>Oil changes</td>
<td>$15</td>
<td>5</td>
<td>$75</td>
<td>Oil changes</td>
</tr>
<tr>
<td>Hamburgers</td>
<td>$2</td>
<td>20</td>
<td>$40</td>
<td>Hamburgers</td>
</tr>
<tr>
<td>MP3 players</td>
<td>$150</td>
<td>3</td>
<td>$450</td>
<td>MP3 players</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>$565</td>
<td>Total</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Price</th>
<th>Quantity</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil changes</td>
<td>$15</td>
<td>6</td>
<td>$90</td>
</tr>
<tr>
<td>Hamburgers</td>
<td>$2</td>
<td>25</td>
<td>$50</td>
</tr>
<tr>
<td>MP3 players</td>
<td>$150</td>
<td>5</td>
<td>$750</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$890</strong></td>
</tr>
</tbody>
</table>

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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