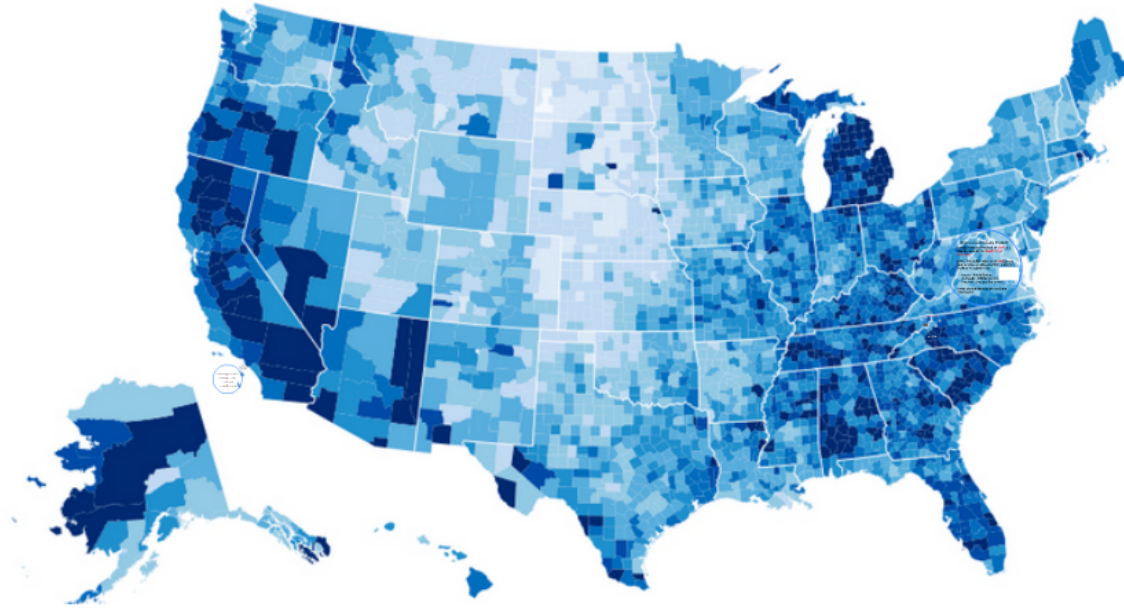
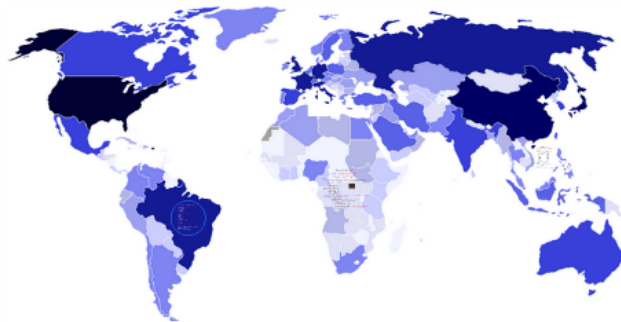


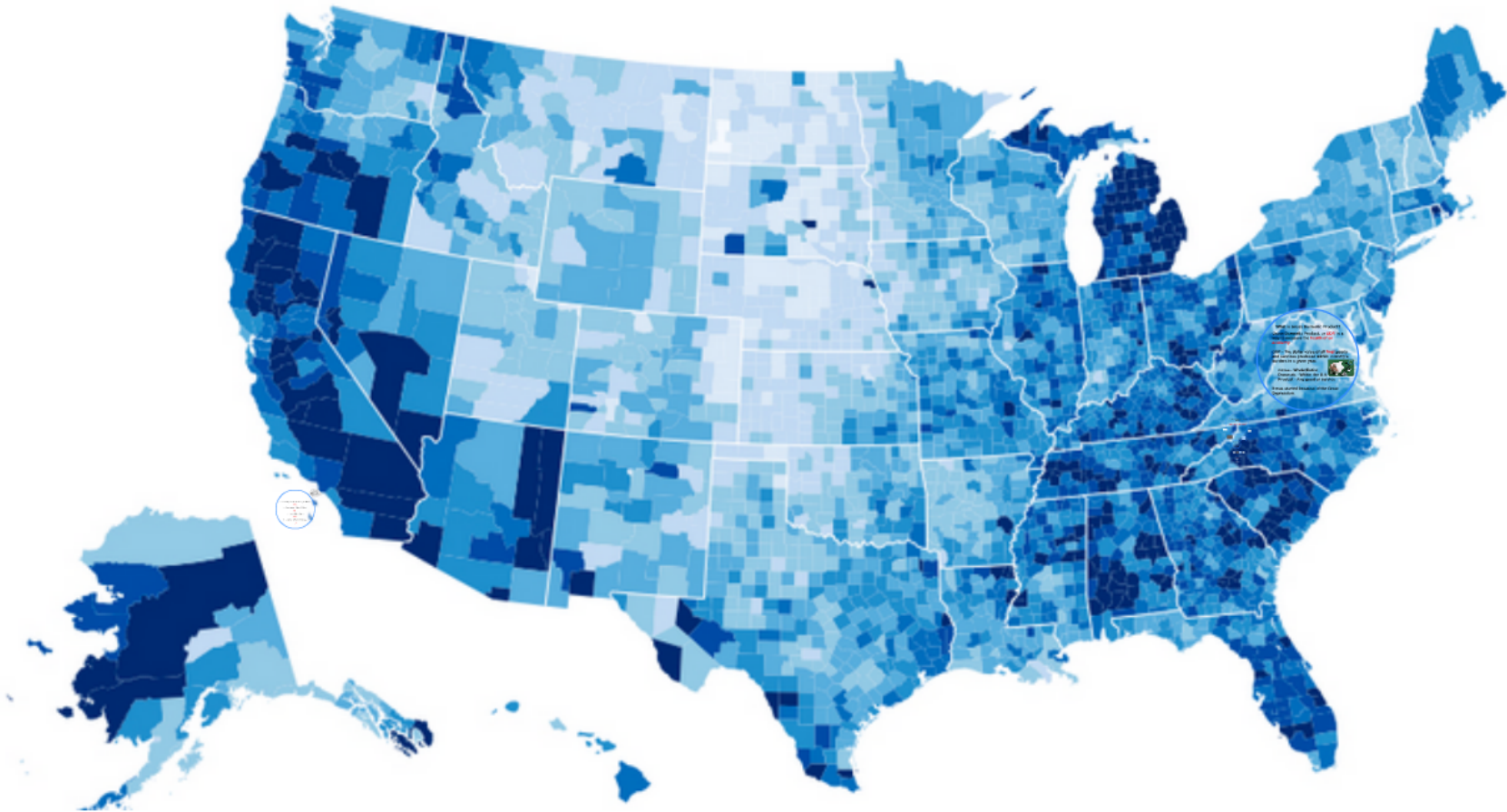
Gross Domestic Product



GDP Around the World



Gross Domestic Product



+, -, ? Cloze Read

Time for some controversy...

Quick Write

Should marijuana be included in the U.S. GDP? Why?

Pair - Share and be ready to defend your position.

What is Gross Domestic Product?

Gross Domestic Product, or **GDP**, is a way to measure the **health of an economy**.

GDP - The dollar value of all **final** goods and services produced within country's borders in a given year.

Gross - Whole/Entire
Domestic - Within the U.S.
Product - Any good or service



It was started because of the Great Depression.

Macroeconomic Indicators

What do we use to measure the health of the economy?

1. GDP 3-4% per year
2. Unemployment Rate - 4-6%
3. Inflation Rate - 3%
4. Poverty Rate - 10%
5. Taxes
6. Stock Market - +5-8%

What's use to calculate GDP?

Included (4 Categories)

1. Consumer Spending (C)
Durable = 5 yrs. + (Steel, Iron, Aluminum)
2. Business Investments (I)
3. Government Spending (G)
4. Net Export (X-M)
(Export-Import)

Excluded

1. Non-market activities (Black market 30% of transactions).
2. Transfers
3. Financial Transactions (Exchanges of paper assets).
4. Intermediate good.

So how do we calculate GDP?

$$\text{GDP} = C + I + G + (X-M)$$

C = Consumer Spending

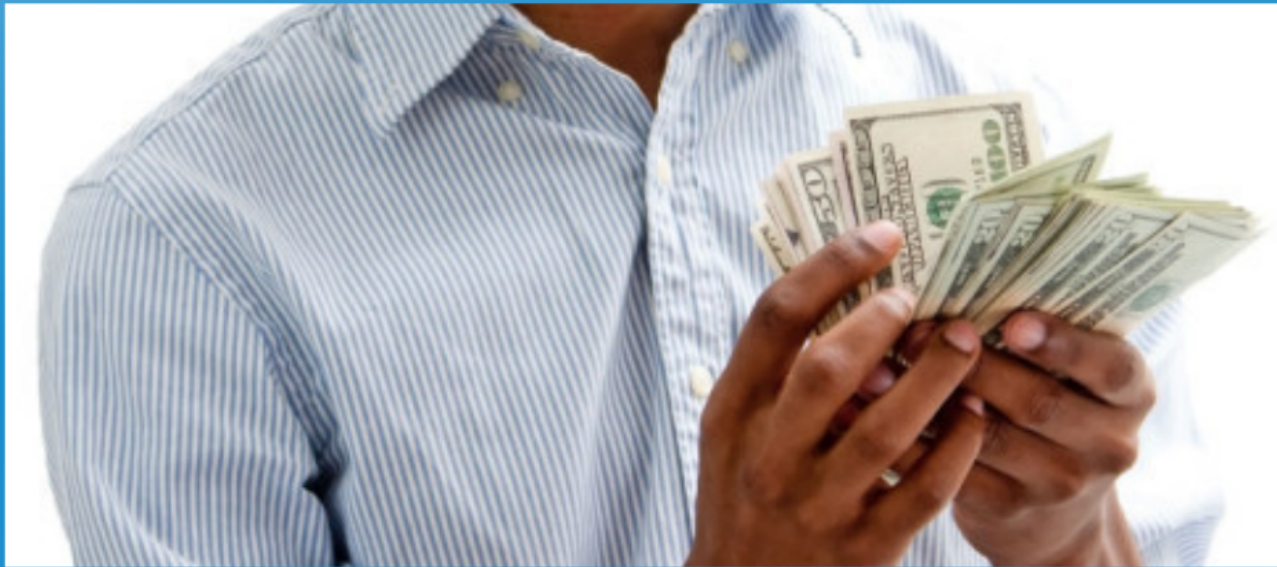


X-M = Net Exports (Exports - Imports)



SO...

C = Consumer Spending



I = Business Investment



G = Government Spending



$X-M = \text{Net Exports (Exports - Imports)}$



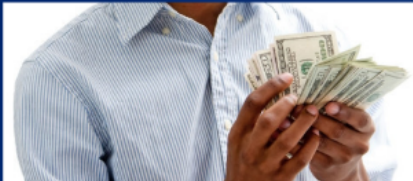
SO...

$$\text{GDP} = C + I + G + (X - M)$$

Or...

Gross **D**omestic **P**roduct is
equal to **C**onsumer
Spending + Business
Investment + **G**overnment
Spending + Net Exports
(**E**xports – **I**mports)

GDP =



+



+



+



+ , - , ? Cloze Read

Time for some controversy...

Quick Write

Should marijuana be included in the U.S. GDP? Why?

Pair - Share and be ready to defend your position.

1. Cars made by a Japanese company in California.

YES

2. Cars made by U.S. firm in S. Korea.

NO

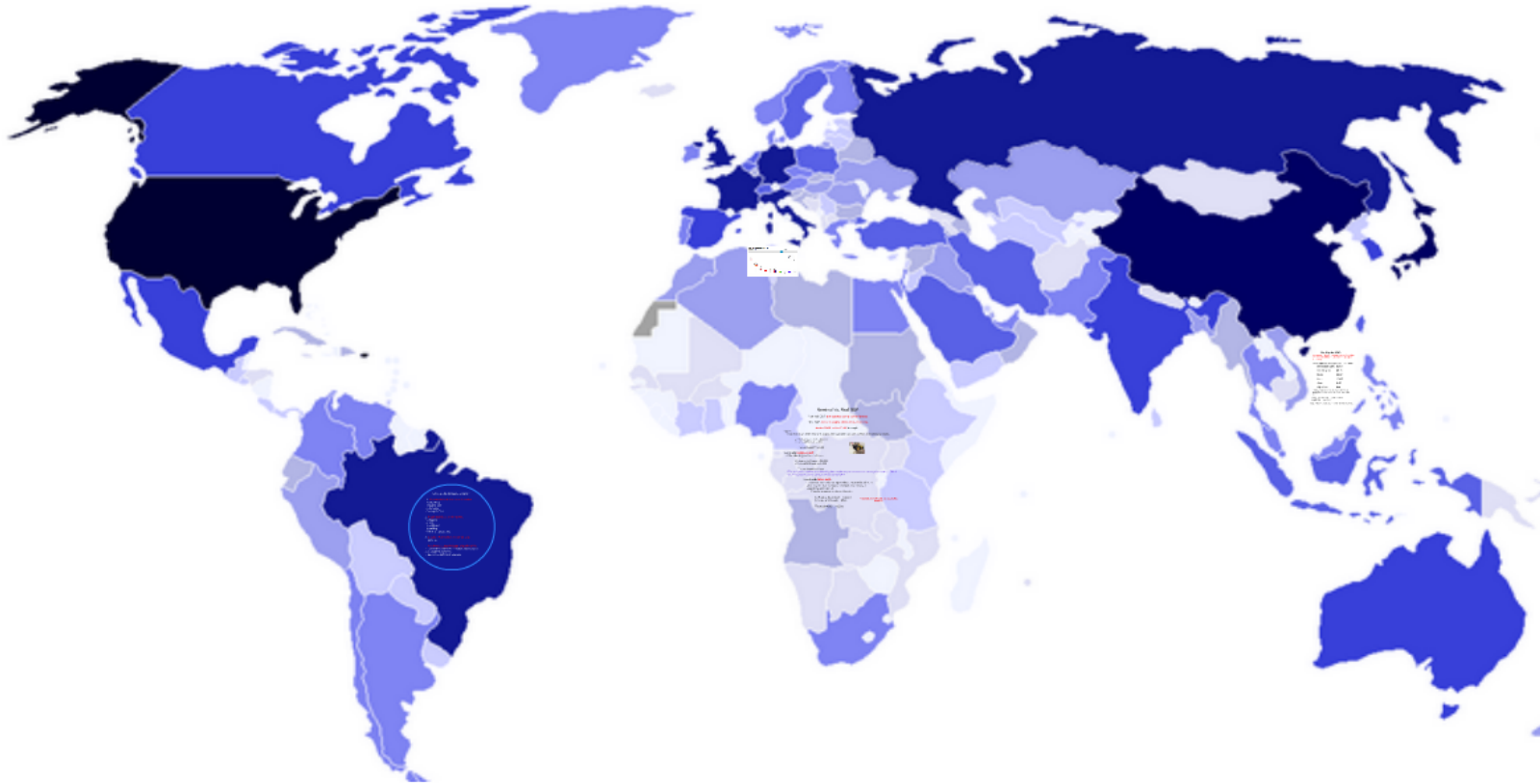
3. A completed new house.

YES

4. The materials used to build the house.

NO

GDP Around the World



World's largest economies

By Andrew Bergmann @dubly

estimated

2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019

view by [size](#) | [growth](#)

2014

timeline paused



U.S.
\$17.5



China
\$10.0



Japan
\$4.8



Germany
\$3.9



France
\$2.9



U.K.
\$2.8



Brazil
\$2.2



Italy
\$2.2



Russia
\$2.1



India
\$2.0



GDP in trillions of U.S. dollars.

Data: IMF, World Economic Outlook

Per Capita GDP -

A measure of the total output of a country that takes the GDP and divides it by the number of people in the country.

GDP / Population = Per Capita GDP (in thousands)

United States (12th) \$53,040

United Kingdom \$41,787

Mexico \$10,307

Russia \$14,611

China \$6,807

Afghanistan \$665

If the U.S has a GDP of 3,000,000,000 and a population of 9,000,000 what is their per capita GDP?

What if it's GDP is 5,000,000,000 and population 10,000,000?

<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>

Nominal Vs. Real GDP

Nominal GDP **is measured using current prices.**

Real GDP **uses unchanging prices (constant prices).**

Nominal GDP vs. Real GDP Example:

Year 1:

- If our economy's entire economic output were pugs and cats and this year the economy produces...

10 Pugs at \$100 each = \$1,000

10 Cats at \$50 each = \$500

The total would = \$1,500



Year 2 with **NOMINAL GDP**:

- If the following year we produced...

10 Pugs at \$200 each = \$2,000

10 Cats at \$100 each = \$1,000

The total would = \$3,000

**The 2nd year's numbers are misleading because the output was the same but the price went up. This is not an accurate measure! So economists use real GDP.*

Year 2 with **REAL GDP**:

- To correct these misleading numbers, economist select a year to work as a "constant" and use those prices to determine GDP growth.

Therefore production looks like this...

10 Pugs at \$100 each = \$1,000

10 Cats at \$50 each = \$500

The total would = \$1,500

THE SAME AS YEAR ONE...NO ECONOMIC GROWTH!

What are the limitations of GDP?

1. **Non-market activities are not counted.**
 - babysitting
 - mowing lawn
 - allowance
 - “honey do” list
2. **Illegal activities are not reported.**
 - weapons
 - drugs
 - prostitution
 - gambling
 - informal transactions
3. **Negative Externalities do not show up.**
 - pollution
4. **Not always a great indicator of quality of life.**
 - Denmark’s GDP is 310.4 billion and their per capita GDP is \$39,558
 - per capita GDP is an average