

Definition of GDP

- **GDP or gross domestic product** is the market value of all final goods and services produced in a country in a given time period. This definition has four parts:
 - **Market value**→ market prices
 - **Final goods and services** →an item bought by its final user during a specified time period to avoid double counting
 - **Produced within a country**→ domestic production
 - **In a given time period**→ normally a year or a quarter of a year.

- **Questions on this part:**

Gross domestic product is the total _____ produced within a country in a given time period.

- A) market value of all final and intermediate goods and services
- B) market value of all goods and services
- C) amount of final and intermediate goods and services
- D) market value of all final goods and services**

In the definition of GDP, "market value" refers to

- A) valuing production in production units.
- B) not counting intermediate products.
- C) valuing production according to the market price.**
- D) when the production took place.

If Nike, an American corporation, produces sneakers in Thailand this would

- A) count as part of U.S. GDP since it is a U.S. corporation.
- B) count for both Thailand's GDP and U.S. GDP.
- C) add to Thailand's GDP but not to U.S. GDP.**
- D) add to neither U.S. GDP nor Thailand's GDP.

The word "final" in the definition of GDP refers to

- A) not counting intermediate goods or services.**
- B) the time period when production took place.
- C) valuing production at market prices.
- D) counting the intermediate goods and services used to produce GDP.

A loaf of bread purchased by one of your instructors would be best described as

- A) an intermediate good.
- B) a financial asset.
- C) a used good.
- D) a final good.**

Intermediate goods are excluded from GDP because

- A) their inclusion would involve double counting.**
- B) they represent goods that have never been purchased so they cannot be counted.
- C) their inclusion would understate GDP
- D) the premise of the question is incorrect because intermediate goods are directly included in calculating GDP.

In computing GDP, it is essential to

A) avoid double counting.

B) include government transfer payments.

C) include government tax revenues.

D) count all intermediate products directly as they are produced.

- A country with a larger GDP per person generally has a lower standard of living or quality of life than a country with a smaller GDP per person. False
- Gross domestic product is a measure of the total value of all intermediate goods and services. False
- Intermediate goods and services are one of the largest components of the expenditure approach to measuring GDP. False

Measuring GDP

- Two methods of measuring GDP are **the income approach and the expenditure approach.**
- **GDP** equals **C+I+G+(X-M)**

Net Export = Exports - Imports

$NX = (X - M)$

Exports > Imports **Surplus**

Exports < Imports **Deficit**

Exports = Imports **Balanced**

- **Questions on this part:**

GDP equals

A) $C+S+G+(X-M)$

B) $C+I+G+(X+M)$

C) $C+I+G+(X-M)$

D) $C+S+G+(X-M)$

Which of the following is correct?

A) Aggregate expenditure equals GDP but is less than aggregate income.

B) Aggregate income is greater than GDP but equal to aggregate expenditure.

C) Aggregate income is greater than aggregate expenditure but equal to GDP.

D) Aggregate income, aggregate expenditure and GDP are all equal.

Two methods of measuring GDP are

A) the income approach and the expenditure approach.

B) the income approach and the receipts approach.

C) the goods approach and the services approach.

D) the saving approach and the investment approach.

GDP can be computed as the sum of

A) all sales that have taken place in an economy over a period of time.

B) the total expenditures of consumers and business over a period of time.

C) the total expenditures of consumption, investment, and government expenditure on goods and services over a period of time.

D) the total expenditures of consumption, investment, government expenditure on goods and services, and net exports over a period of time.

- To calculate GDP using the expenditure approach, in part it is necessary to add exports and subtract imports. **True**
- Gross Domestic Product can be measured as the sum of investment, wages, profits, and intermediate production. **False**
- When Exports are more the imports, then there is a trade deficit. **False**

Real GDP and the Price Level

- **Real GDP** is measured in base year prices, while **nominal GDP** is measured in current year prices.

• Questions on this part:

- Real GDP is measured in base year prices, while nominal GDP is measured in current year prices. **True**

Limitations of Real GDP as a measure of economic welfare

1. Real GDP does not include Quality improvements
 2. Real GDP does not include household production
 3. Real GDP does not include the underground economy, illegal economic activity
- Real GDP does not account for people's health and life expectancy
5. Real GDP does not consider the value of leisure time.
 6. Real GDP does not consider Environmental Quality / damage
 7. Real GDP does not indicate the extent of political freedom and social justice enjoyed by a nation's citizens

• Questions on this part:

- If a measure of real GDP could include the value of leisure time, measured real GDP would increase. **True**
- The fact that prices for similar goods differ across nations complicates comparisons of real GDP across countries. **True**
- Household production is not measured in the GDP. **True**
- The underground economy means that GDP will overstate the actual level of economic welfare. **False**
- Production in the home is not included in real GDP. **True**
- Real GDP overvalues household production. **False**