**ECONOMICS**

**GDP Worksheet**

***A. Components of GDP: Fill in the blank with the component of GDP each of these items would fit into.***

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A mechanic is paid $500 to repair a transmission.

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A business purchases a $750 computer for use by employees.

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A local police department purchases new guns for $2700.

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ BMW manufactures a car in the US, then sells it in Mexico for

$55,000.

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ A young couple rents an apartment for $1000 per month.
2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Ford makes a truck in Mexico and sells it in the US for $45,000
3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ What is the total US GDP for the transactions in #1-6?

**Write one more example for each of the four components.**

1. Consumption \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Investment \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Government Spending \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Net Exports \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

1. Explain why the sale of used goods is not included in GDP:

**B. 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.

|  |  |  |  |
| --- | --- | --- | --- |
|  **Year 1 Nominal GDP**  |   |  **Year 2 Nominal GDP**  |  |
| Good Price Quantity  | GDP  | Good Price Quantity  | GDP  |
| Oil changes $ 15 5  | \_\_\_\_\_\_\_  | Oil Changes $ 18 6  | \_\_\_\_\_\_  |
| Hamburgers $ 2 20  | \_\_\_\_\_\_\_  | Hamburgers $ 3 25  | \_\_\_\_\_\_  |
| MP3 players $150 3  | \_\_\_\_\_\_\_  | MP3 players $175 5  | \_\_\_\_\_\_  |
|  TOTAL:  | \_\_\_\_\_\_\_  |  TOTAL:  | \_\_\_\_\_\_  |

1. How much did nominal GDP increase from Year 1 to Year 2? \_\_\_\_\_\_\_\_\_\_\_\_

**Calculate Year 2 REAL GDP using Year 1 as the base year. (use Year 1 prices to calculate Year 2 GDP)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year 1 Real GDP**  |   |   | **Year 2 Real GDP (Year 1 base year)**  |  |
| **Good Price**  | **Quantity**  | **GDP**  | **Good Price Quantity**  | **GDP**  |
| Oil changes $15  |  5  | \_\_\_\_\_\_\_  | Oil Changes $ 15 6 | \_\_\_\_\_\_  |
| Hamburgers $2  | 20  | \_\_\_\_\_\_\_  | Hamburgers $ 2 25  | \_\_\_\_\_\_  |
| MP3 players $150  |  3  | \_\_\_\_\_\_\_  | MP3 players $150 5  | \_\_\_\_\_\_  |
|   | TOTAL:  | \_\_\_\_\_\_\_  |  TOTAL:  | \_\_\_\_\_\_  |
|  |  |  |  |  |

1. What was the difference between Year 2’s nominal GDP and it’s real GDP? \_\_\_\_\_\_
2. How much did real GDP increase from Year 1 to Year 2? \_\_\_\_\_\_\_
3. Why is it important to adjust nominal GDP to real GDP to account for inflation?

**C. Assume that a country has a closed economy with only three goods/services (no next exports). In a given year, the economy produces: a) three haircuts at $10 each; b) two factory machines at $100 each; and c) one highway repair that costs $500.**

|  |  |  |
| --- | --- | --- |
| 15. | What is total GDP for this economy? | \_\_\_\_\_\_\_\_\_\_\_  |
| 16. | What percent of GDP is consumption? | \_\_\_\_\_\_\_\_\_\_\_  |
| 17. | What percent of GDP is investment? | \_\_\_\_\_\_\_\_\_\_\_  |
| 18. | What percent of GDP is government spending? | \_\_\_\_\_\_\_\_\_\_\_  |
|  |  |  |

1. 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 to determine that?
2. Why is GDP not a true measure of the standard of living? What other factors should be considered when determining a country’s standard of living?