ECON 3123: Macroeconomic Theory I

Tutorial Note 1: Measurement of Macroeconomy

Teaching Assistant: Harlly Zhou

Output

Calculation of GDP There are 3 definitions of GDP, each corresponding to a way to calculate it.

(1) GDP is the market value of the **final** goods and services produced **in the economy** during a given period.

- Intermediate goods and services are not considered in this way of calculation.
- Foreign producers' production within the economy is counted into this economy's GDP.

(2) GDP is the sum of **value added** in the economy during a given period.

- Value added = Value of production − Value of intermediate goods used in production.

(3) GDP is the sum of **incomes** in the economy during a given period.

Exercise 1. *Carl's Computer Center sells computers to business firms. Businesses then use the computers to produce other goods and services. Over the past year, sales representatives were paid $3.5 million, $0.5 million went for rent on the building, $0.5 million went for taxes, $0.5 million was profit for Carl, and $10 million was paid for computers at the wholesale level. What was the firm's total contribution to GDP?*

Exercise 2. *Pete the Pizza Man produced $87,000 worth of pizzas in the past year. He paid $39,000 to employees, paid $11,000 for vegetables and other ingredients, and paid $5000 in taxes. He began the year with ingredient inventories valued at $1000, and ended the year with inventories valued at $2000. What was Pete's (and his employees') total contribution to GDP this year?*