Q2: **GDP = C + I + G + GX - IM. Explain why we subtract imports rather than just ignore them.**

GDP counts the annual value of all final goods and services produced in an economy. It measures product, not spending. Net exports (NX = GX - IM) are one of the special instances where we count the intermediate goods. This is because GDP is bound by WHERE the good is produced.

Therefore, exported goods that are bought by foreigners but were produced in the US are added to the total of US GDP. Imported goods a foreign-produced; because they are not made in the US, they are not part of US GDP. So imports need to be subtracted from GDP.

Initially both economies have the same levels of output per worker. about 25 percent of its capital stock. In both economies, about 1 percent of the labor force is killed in the war. Assume that there is no change to the saving rate as a result of the war. Assume efficiency (E) is constant in both economies.