# ECON 151

# Prepare: Chapter 8

**Name:**

**Section:**

In order to get full credit, answer all questions in either **bold font** or red font.

**Read Chapter 8 in the Hubbard/O’Brien text.**

1. Define gross domestic product (GDP). Why is market value used instead of quantities? Is the value of intermediate goods and services included in GDP?

GDP is the market value of all final goods and services produced in a country during a period of time, typically one year. Market value is used instead of quantities because not all products are equal. We take the value of the products and add those together instead otherwise it would be meaningless. With GDP we only include the final products otherwise if we counted the intermediate goods they would be counted twice.

1. Why does the value of total production in the economy equal the value of total income? Explain simply and use the example in the text of the New Balance running shoes.

Because using the circular flow diagram, when we purchase goods and services these turn into wages and salaries. And the people who contributed to the production receive money

1. List and define the four components of GDP.

Personal consumption expenditures are what is made by household and what they purchase

Gross private domestic investment is what business purchase to help the company, real estate and business inventories.

Government purchases is the federal, state and local government spending

Net exports are exports – imports since we include the production in the united states.

1. What are the two types of production not included in GDP? Give two examples of each type of production.

Production in the home, if a builder builds something for their own house it will not be included in GDP. Someone who takes care of their family themselves will not be included, but once they make purchases outside of the home it is included.

Production in the underground economy, someone selling illegal substances to another. Selling products to avoid taxes are not included either.

1. What are the reasons why GDP is not a perfect measure of well-being?

The value of leisure is not included, not adjusted for pollution or negative effects of production, not adjusted for crime or other social problems, and not how everything is distributed.

6. Distinguish between real GDP & nominal GDP. Which would be a better measure of the output of

an economy over time? Why?

Nominal GDP measures for current values of products while real GDP uses a base year and compares the GDP for another by basing it off of the base year. Real GDP uses constant values making it a better measure of the output.

7. What do economists mean by the **price level**?

Price level is the average prices of goods and services in the economy.

8. What does the GDP deflator have to do with the price level?

The GDP deflator takes into account the differences as prices increase for products, but production remains the same and the nominal GDP would increase, but the real GDP would remain the same.

9. Briefly describe the 4 alternative ways to measure total production and total income:

GNP takes the value of goods and services produced even if they were produced outside the United States.

National income is subtracting depreciation from GDP

Personal income is calculated by subtracting dividends then add the payments received by the government

Disposable personal income is calculated by personal income minus personal tax payments.