Prices solve both problems

We must use prices

GDP = $0.5*(1 apple)+$1000*(1 computer)

Prices put quantity produced into a dollar amount allowing us to add: dollar amount of computers + dollar amount of apples + dollar amount of hair cuts…

$0.5

$1000

Prices serve as the "weight" for value added: a computer sells for a higher price than an apple, reflecting the difference in value.

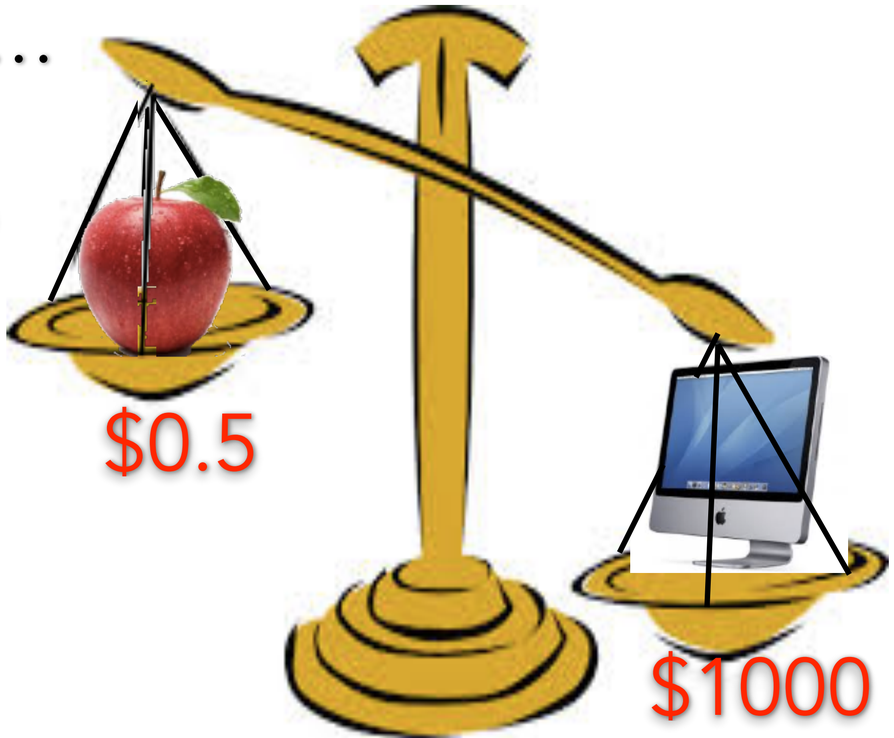
Prices solve both problems

Prices serve as the "weight" for value added: a computer sells for a higher price than an apple, reflecting the difference in value.

Prices put quantity produced into a dollar amount allowing us to add: dollar amount of computers + dollar amount of apples + dollar amount of hair cuts…

GDP = $0.5*(1 apple)+$1000*(1 computer)

→ We must use prices



Prices provide the best “weight” to approximate value added