



Prices solve both problems



We **must** use prices as  
**weights** when  
calculating GDP



GDP for a country that produces 100  
computers = \$1,000(100) = \$100,000

Prices convert **quantity** produced into a **dollar amount** allowing us to add dollars:  
dollar amount of computers produced +  
dollar amount of apples produced + dollar  
amount of hair cuts...

Price of one  
pencil = \$0.5

Price of one  
computer = \$1,000

Prices “weigh” goods according to value added: a computer sells for a higher price than a pencil, reflecting the difference in value.



GDP for a country that produces 100  
pencils  $= \$0.5(100) = \$50$

GDP for a country that produces 100 pencils and 100 computers


$$= \$0.5(100) + \$1,000(100) = 50 + 100,000 = \$100,050$$

# Prices solve both problems

Prices “weigh” goods according to value added: a computer sells for a higher price than a pencil, reflecting the difference in value.

Prices convert **quantity** produced into a **dollar amount** allowing us to add dollars: dollar amount of computers produced + dollar amount of apples produced + dollar amount of hair cuts...

GDP for a country that produces 100 pencils and 100 computers  
 $= \$0.5(100) + \$1,000(100) = 50 + 100,000 = \$100,050$

 We **must** use prices as **weights** when calculating GDP



Prices provide the best “weight” to approximate value added