

Prices solve both problems



We must use prices



$$\text{GDP} = \$0.5 * (1 \text{ apple}) + \$1000 * (1 \text{ computer})$$

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.

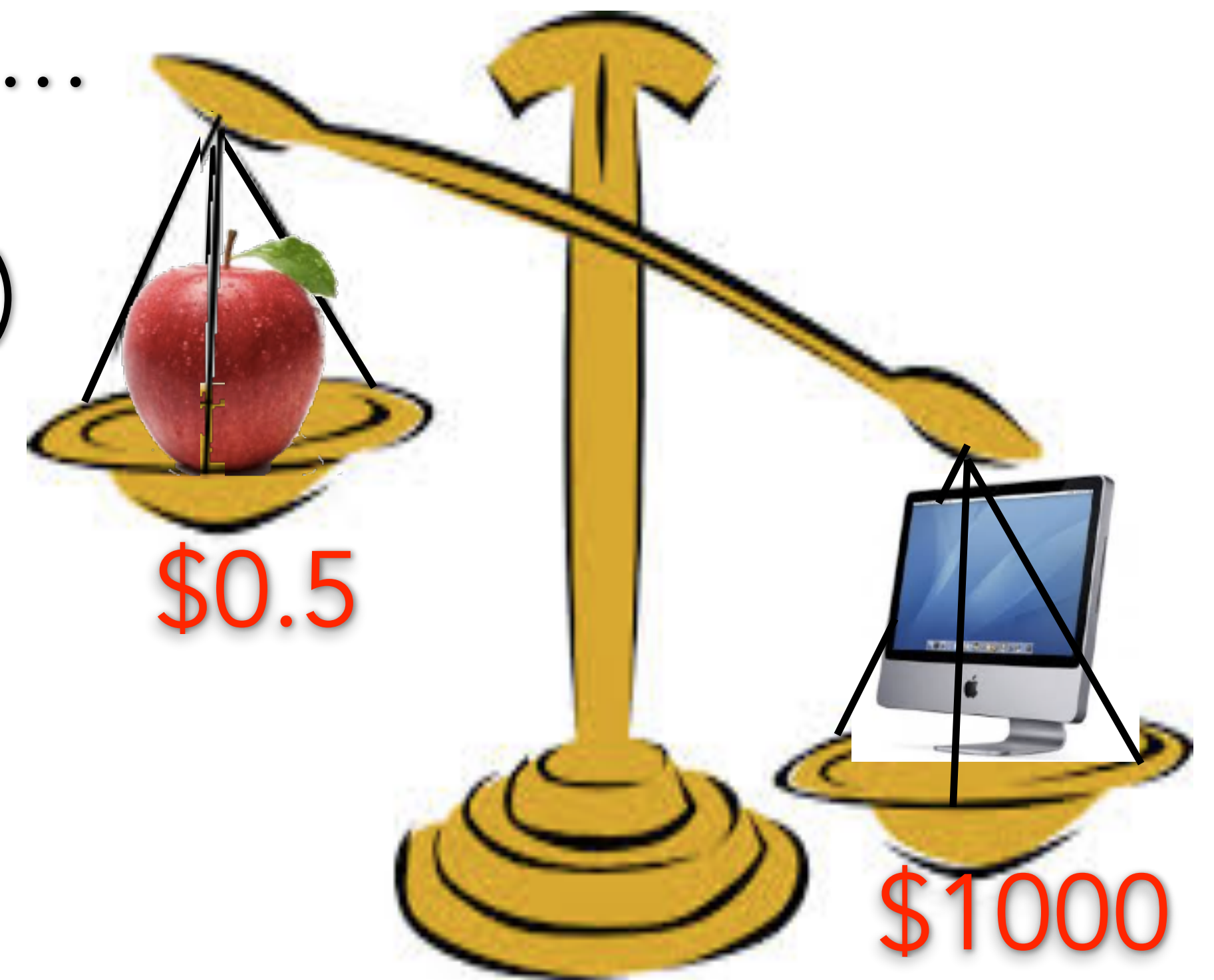
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$$\text{GDP} = \$0.5 \times (1 \text{ apple}) + \$1000 \times (1 \text{ computer})$$

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Prices provide the best “weight” to approximate value added