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 added

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

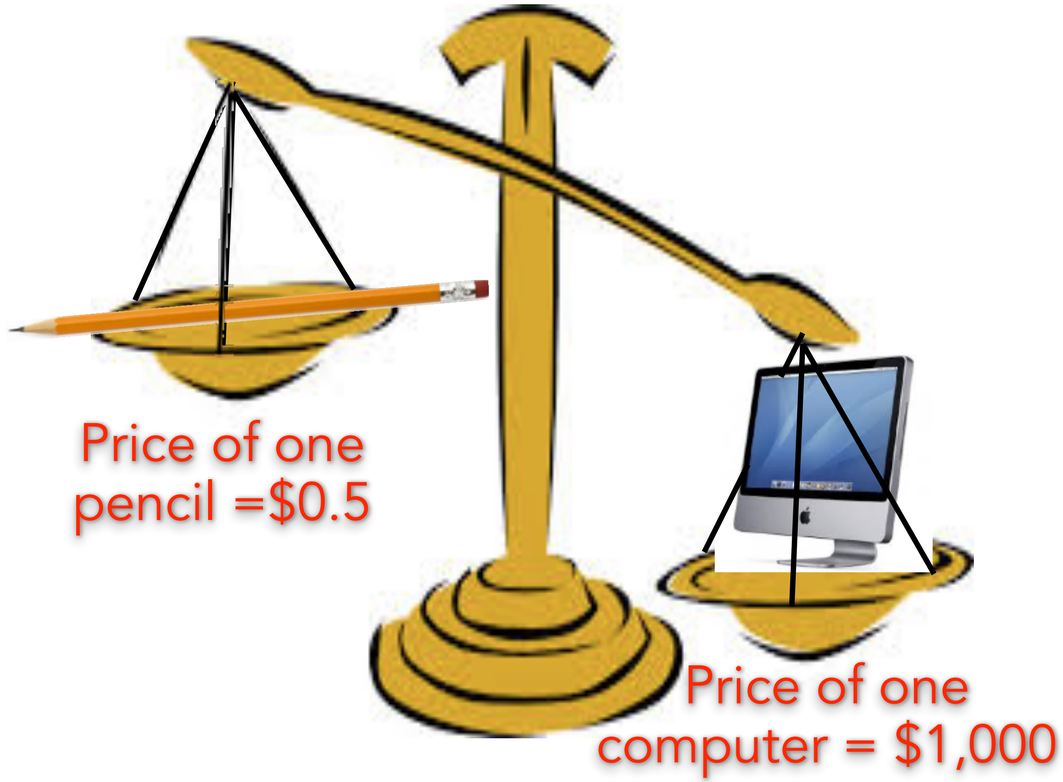
Prices solve both problems

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

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