Prices solve both problems





```
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
```

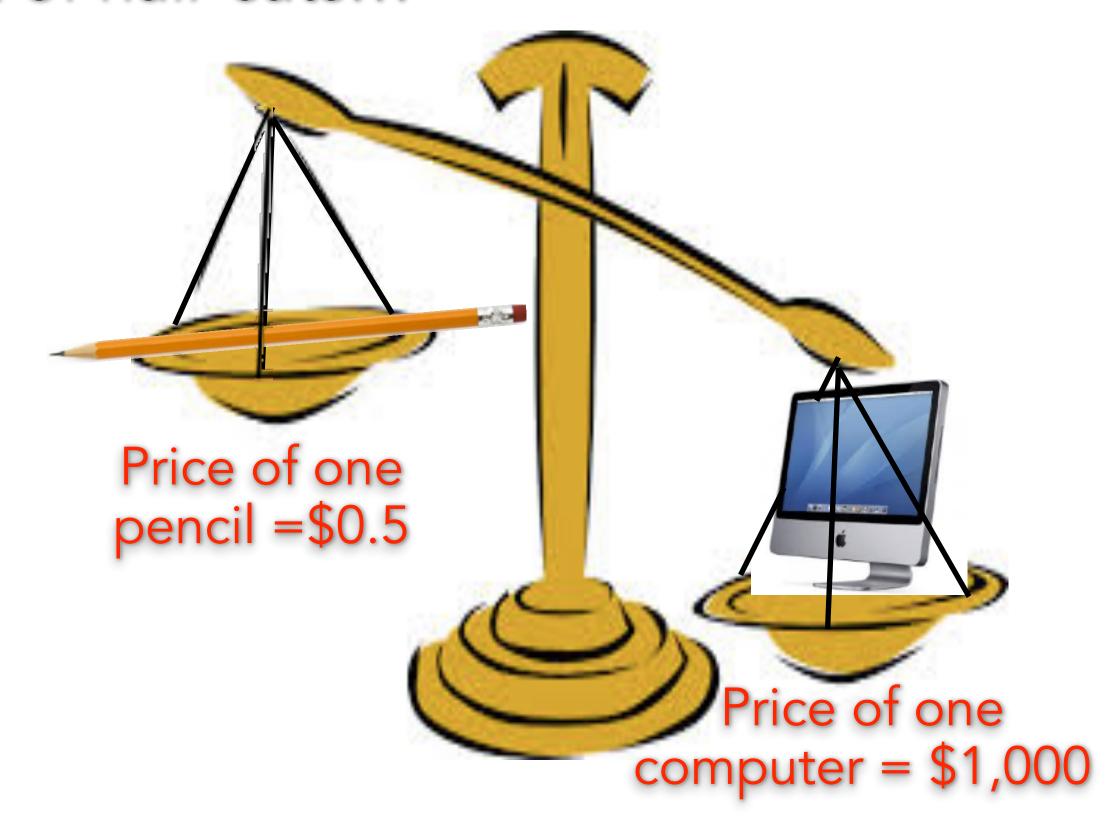
Prices solve both problems

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