

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