**A. Define the concept of value addition. Refer to the Table below. Suppose manufacturing of a wool suit involves five stages. Calculate value addition at each stage of production assuming the cost at the first stage of production $20. (4 points)**

Value addition describes the enhancement of a product value before selling it to others.

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| --- | --- | --- | --- |
| **Stages of Production** | **Costs value of the materials or product** | **Sales value of materials or product** | **Value addition** |
|  |  |  | $20 |
| **Sheep ranch** | $20 | $70 | $50 |
| **Wool Processor** | $70 | $120 | $50 |
| **Suit manufacturer** | $120 | $135 | $15 |
| **Clothing wholesaler** | $135 | $195 | $60 |
| **Retail clothier** | $195 | $350 | $155 |
| **Total** |  |  | $350 |

**B. What is the final price of the suit? If this country makes 1000 suits in 2016, what will be its GDP in 2016?**

The final price of the suit will be $350. If this country makes 1000 suits in 2016, its GDP will be $3.5 million in 2016.

GDP = $350\*1000=$350,000