Liberty High School

AP Macroeconomics

Mr. Lopez

Chapter 23 Study Guide

Measuring Nation’s Income

Name:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Period:\_\_\_\_\_\_\_\_

Note: There are videos on my website under Economics…Specific Concepts and AP resources that may help you understand such concepts as GDP deflator. You can also search youtube and find videos that explain most if not all of these concepts.

Part 1 – Key terms

Inflation:

Unemployment:

Macroeconomics:

Microeconomics:

Total income:

Total expenditure:

Gross Domestic Product:

Depreciation:

Consumption:

Investment:

Government Purchases:

New Exports:

Transfer Payments:

Real GDP:

Nominal GDP:

Base Year:

GDP Deflator:

Recession:

Part 2 – Problems and Short Answers

1. Understanding GDP
   1. Complete the following table:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Year 1** | **Year 2** | **Year 3** |
| Gross Domestic Product | 4,532 | 4,804 |  |
| Consumption |  | 3,320 | 3,544 |
| Investment | 589 | 629 | 673 |
| 673Government Purchases | 861 |  | 977 |
| Net Exports | -45 | -58 | -54 |

* 1. What was the largest expenditure component of GDP?
  2. Does investment include the purchase of stocks and bonds? Why?
  3. Do government purchases include government spending on unemployment? Why?
  4. What does it mean to say that net exports are negative?

1. Suppose the base year in the following table is 2011

|  |  |  |
| --- | --- | --- |
| **Year** | **Production of X** | **Price per Unit X** |
| 2011 | 20 units | 5 |
| 2012 | 20 units | 10 |
| 2013 | 20 units | 20 |

* 1. What is nominal GDP for 2011, 2012, and 2013?
  2. What is real GDP for 2011, 2012, and 2013?

1. Suppose the following table records the total output and prices for an entire economy. Furthermore, suppose the base year in the following table is 2012

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | Price of Soda | Quantity of Soda | Price of Jeans | Quantity of Jeans |
| 2012 | $1.00 | 200 | $10.00 | 50 |
| 2013 | $1.00 | 220 | $11.00 | 50 |

* 1. What is the value of nominal GDP in 2012?
  2. What is the real GDP in 2012?
  3. What is the value of nominal GDP in 2013?
  4. What is the value of real GDP in 2013?
  5. What is the value of the GDP deflator in 2012?
  6. What is the value of the GDP deflator in 2013?
  7. From 2012 to 2013, prices rose approximately what percentage?
  8. Was the increase in nominal GDP from 2012 to 2013 mostly due to an increase on real output or due to an increase in prices?

1. Complete the following table:

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Nominal GDP** | **Real GDP** | **GDP Deflator** |
| 1 |  | $100 | 100 |
| 2 | $120 |  | 120 |
| 3 | $150 | $125 |  |

* 1. What year is the base year? How can you tell?
  2. From year 1 to year 2, did real output rise or did prices rise? Explain.
  3. From year 2 to year 3, did real output rise or did prices rise? Explain.

1. Why does income = expenditures = GDP?
2. Define GDP and explain the important terms in the definition.
3. What are the components of expenditures? Provide an example of each.
4. Provide an example of a transfer payment. Do we include it in GDP? Why or why not?
5. If real GDP in 2013 exceeds real GDP in 2012, did real output rise? Did prices rise?
6. If you buy a $20,000 Toyota that was produced entirely in Japan, does this affect US GDP? Show how this transaction would affect the appropriate categories that make up GDP.
7. Explain the difference between GDP and GNP. If the residents of The United States generate as much production in the rest of the world as the rest of the world generates in The United States, what should be true of the US GDP and GNP?
8. Which contributes more when measuring GNP, a new diamond necklace purchased by a wealthy person or soda purchased by a thirsty person? Why?
9. If your neighbor hires you to mow her lawn instead of doing it herself, what will happen to GDP? Why? Did output change?

Part 3 – True or False

14.\_\_\_\_\_\_\_\_ For an economy as a whole, income equals expenditure because the income of the seller must be equal to the expenditure of the buyer.

15.\_\_\_\_\_\_\_The production of an apple contributes more to GDP than the production of a gold ring because food is necessary for life itself.

16.\_\_\_\_\_\_\_If the lumberyard sells $1,000 of lumber to a carpenter and the carpenter uses the lumber to build a garage that he sells for $5,000, the contribution to GDP is $6,000.

17.\_\_\_\_\_\_\_A country with a larger GDP per person generally has a greater standard of living or quality of life than a country with a smaller GDP per person.

18.\_\_\_\_\_\_\_If nominal GDP is 2013 exceeds nominal GDP in 2012, real output must have risen.

19.\_\_\_\_\_\_\_If US GDP exceeds US GNP then foreigners produce more in the United States than US citizens produce in the rest of the world.

20.\_\_\_\_\_\_\_ Wages are an example of the transfer payment because there is a transfer payment from the firm to the worker.

21.\_\_\_\_\_\_\_ in the United States, investment is the largest component of GDP.

22.\_\_\_\_\_\_\_Nominal GDP employs current prices to the value output while real GDP employs current base-year prices to value output.

23.\_\_\_\_\_\_\_A new car produced in 2012, but sold in 2013, should be counted in 2013 GDP because that is when it was first sold as a final good.

24.\_\_\_\_\_\_\_When the city of Chicago purchases a new school building, the investment component of GDP increases.

25.\_\_\_\_\_\_\_A recession occurs when real GDP declines.

26.\_\_\_\_\_\_\_Depreciation is the value of the wear and tear on the economy’s equipment and structures.

27.\_\_\_\_\_\_\_Cigarettes should be values in GDP at $5.50 per pack even though $1.00 of that price is tax because the buyers paid $5.50 per pack.

28.\_\_\_\_\_\_\_Net national product always exceeds a nation’s GDP because of depreciation.

Part – 4 Additional Critical Thinking

You are watching a news report with you parent. The news anchor points out that a certain troubled Caribbean nation generates a GDP per capita of only $430 per year. Since your parent knows that US GDP per capita is approximately $43,000, your parent suggests that we are materially 100 times better off in the United States than in the Caribbean nation.

29. Is your parent’s statement accurate?

30. What general category of production is not captured by GDP in both the United States and the Caribbean nation?

31. Provide some examples of this type of activity?

32. Why would the exclusion of this type of production affect the measurement of Caribbean output more than US output?

33. Does this mean that residents of the Caribbean nation are actually as well off materially as residents in the United States?