

The success of an economy is measured in how much it produces valued goods and services that improve the standard of living.

**3. To what extent are economic indicators accurate measures of standards of living? How do economic policies impact you?**

What is GDP?

What does it tell us about the health of an economy?



**What is GDP?**

**What does it tell us about the health of an economy?**

# **Gross domestic product**

**The total spending on all final goods and services produced within a nation's borders during a 1 year period.**

# Gross domestic product (GDP)

We all want growth

Produce goods and services that we want

Increase standard of living

If we increase our aggregate demand we also increase employment

$$\text{GDP} = C + I + G + NX$$

Consumer spending + Business spending + Government + other countries

What isn't counted

Intermediate goods- parts of a car

Non productive transactions - stocks homes

Non market transactions- under the table, family, barter, and black markets

Why is GDP a good indication of a nation's standard of living?

Why is GDP a poor indication of a nation's standard of living?

## Why do we use GDP?

In general a strong economy has a growing GDP's and economies that are struggling see a negative growth rate.

## Some Flaws

Accounts for negatives- natural disasters, war

Doesn't account for negative externalities

Doesn't account for unpaid productive work

Spending doesn't always translate to production and increased standard of living

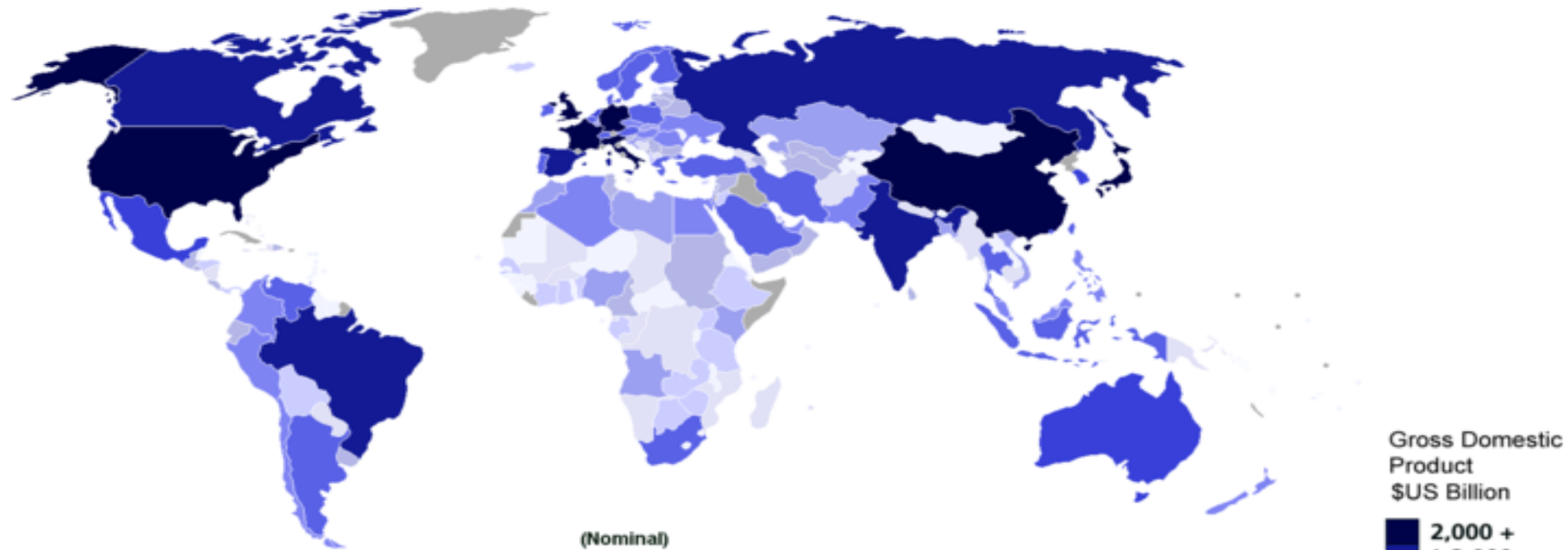
**Nominal GDP:        Measuring GDP with today's prices**

**Real GDP:            Measuring GDP using a base year's value of the dollar- this  
                              compensates for inflation**

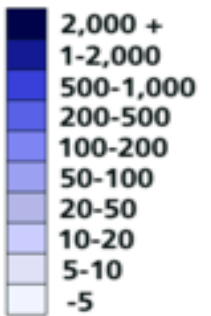
$(\text{Nominal GDP} / \text{GDP Price index}) * 100$

**GDP per Capita:     GDP per person, dividing GDP by the population**





Gross Domestic Product  
\$US Billion



CIA World Factbook  
2007 figures

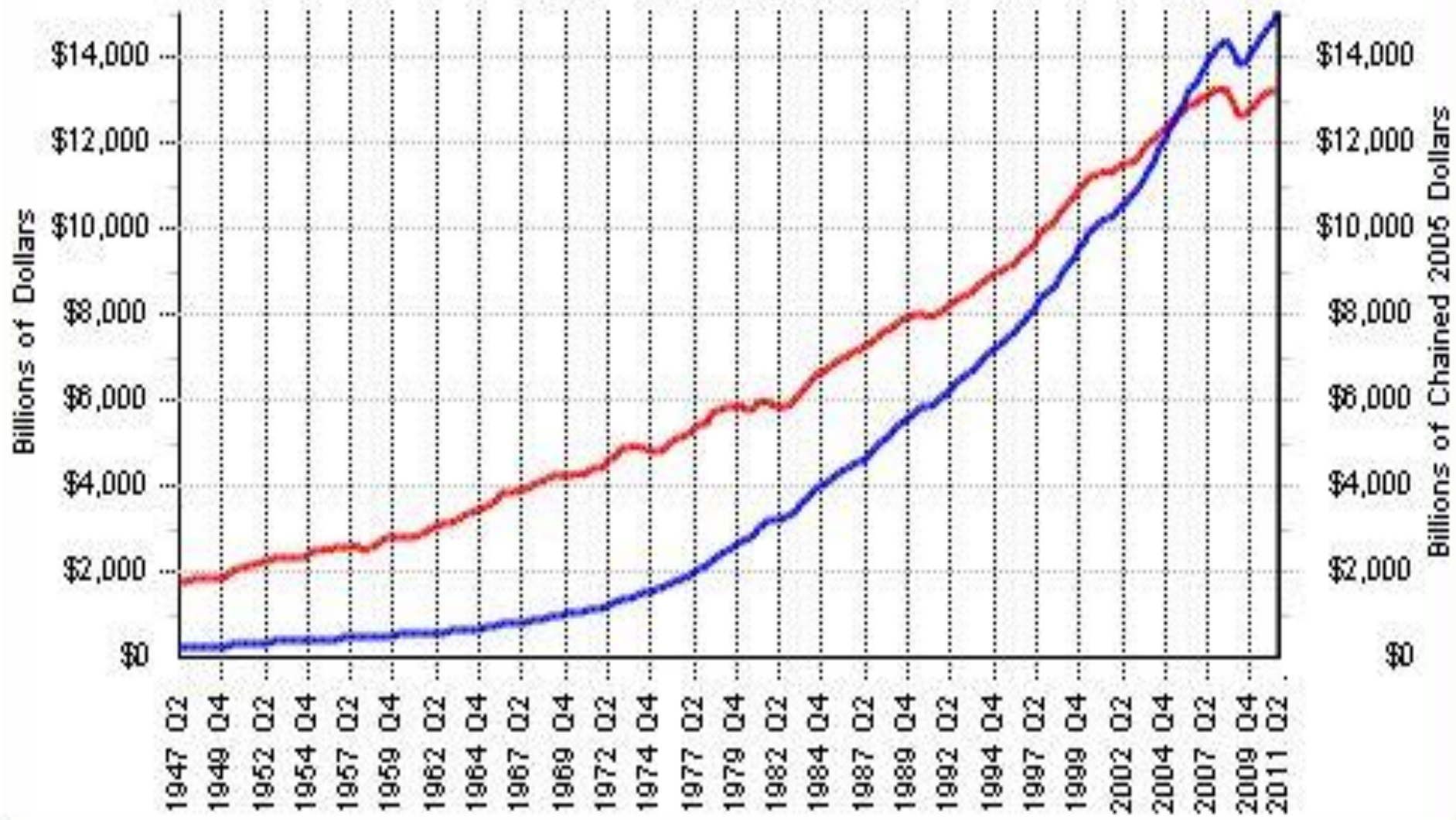
Which nations have the highest GDP?

What do these nations have in common?

# Gross Domestic Product

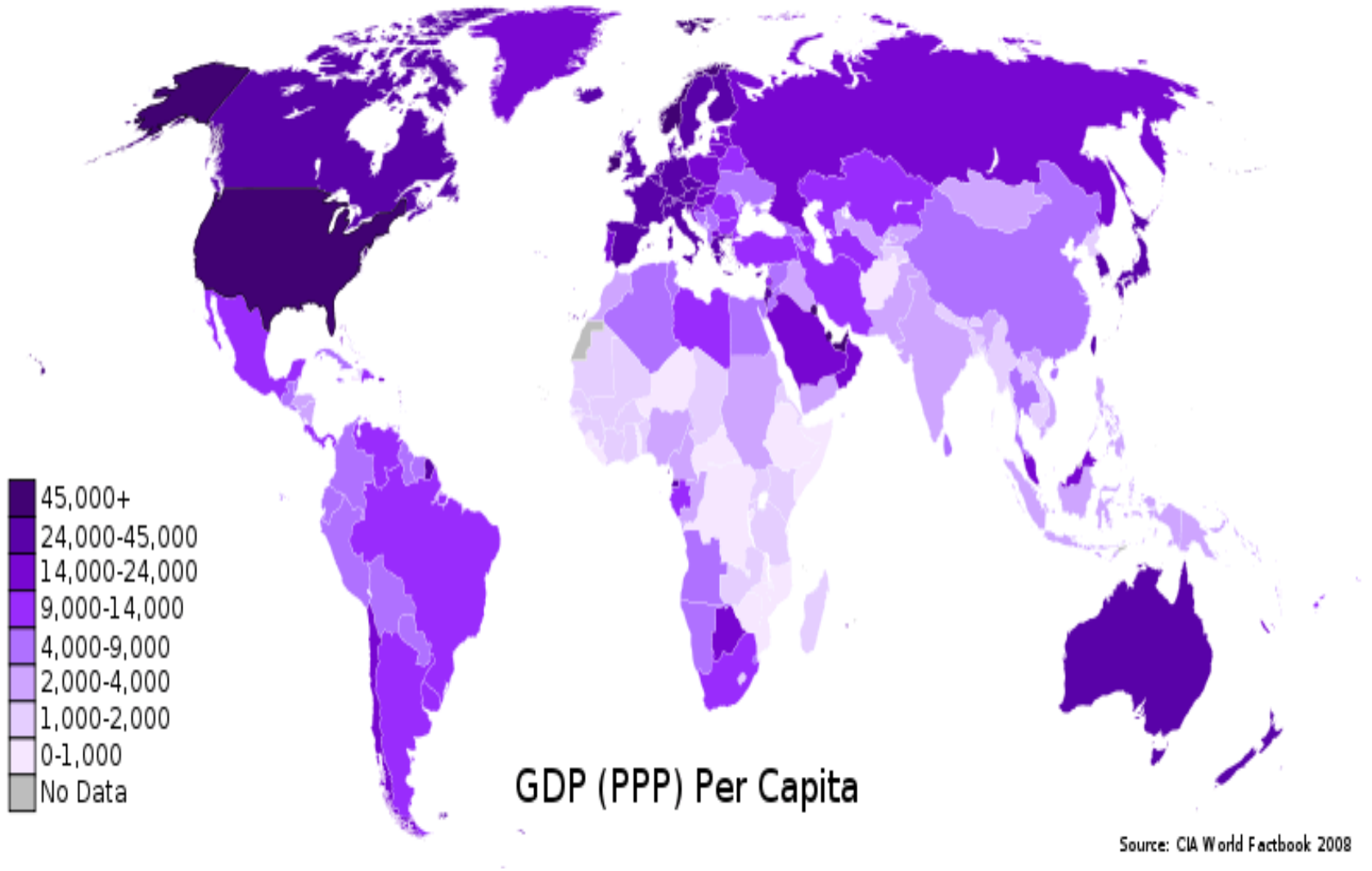
13500.

## GDP United States



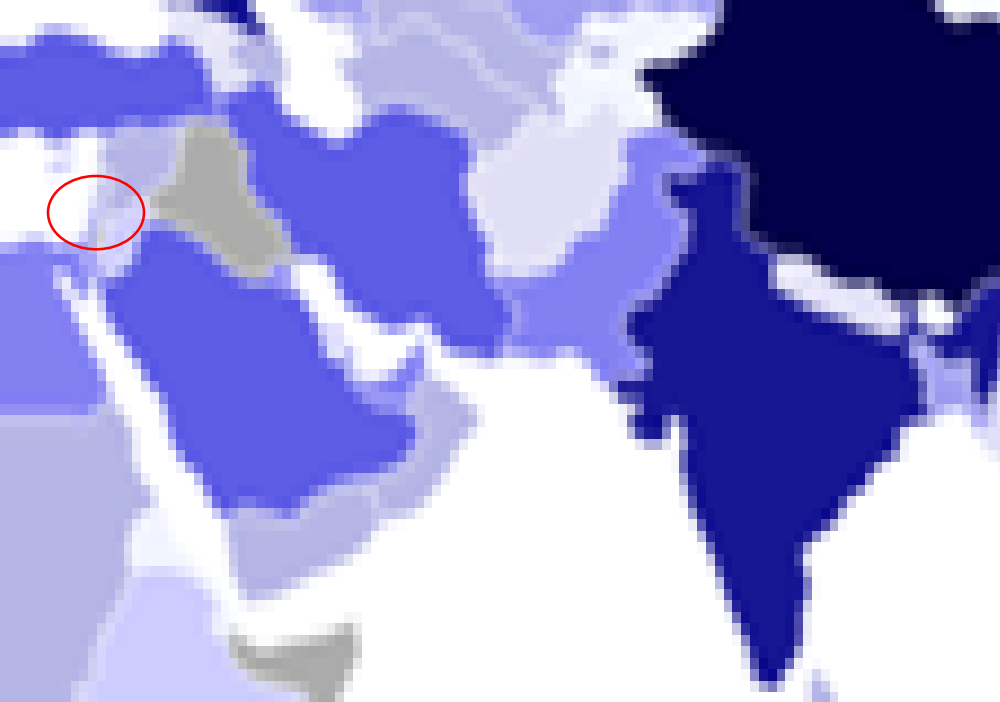
— Nominal US GDP to One Decimal Place [ADF]

— Real US GDP to One Decimal Place [ADF]



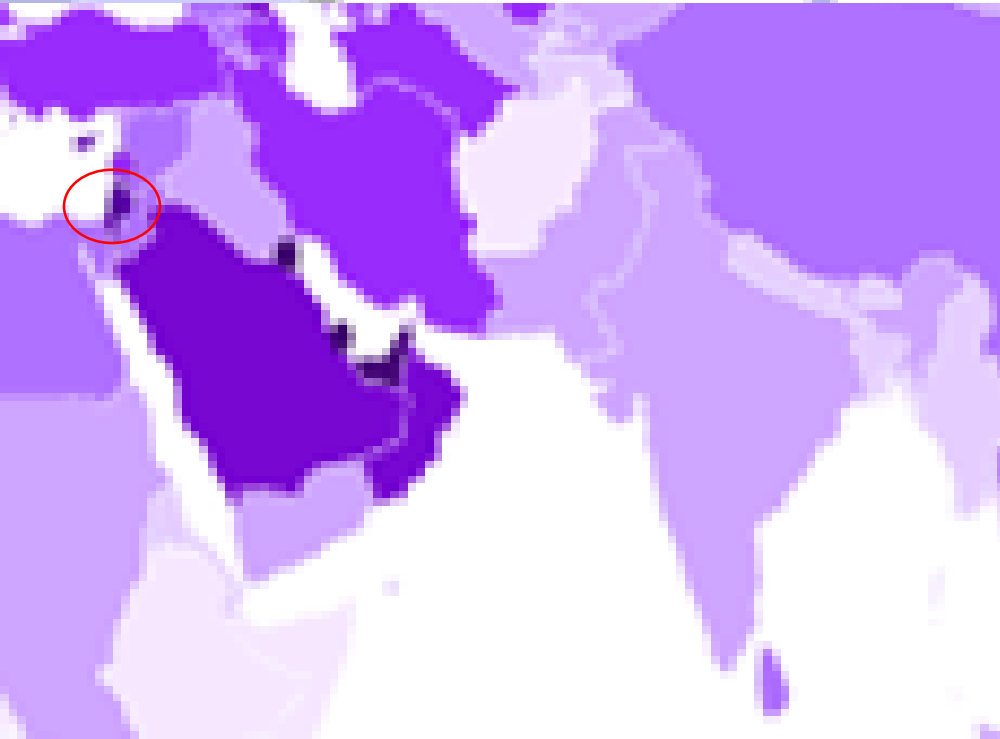
**How does Australia compare to China and India on this map as a compared to the previous map?**

**Explain why this is the case.**



**Nominal GDP**

**Who has a larger nominal GDP  
India or Israel?**

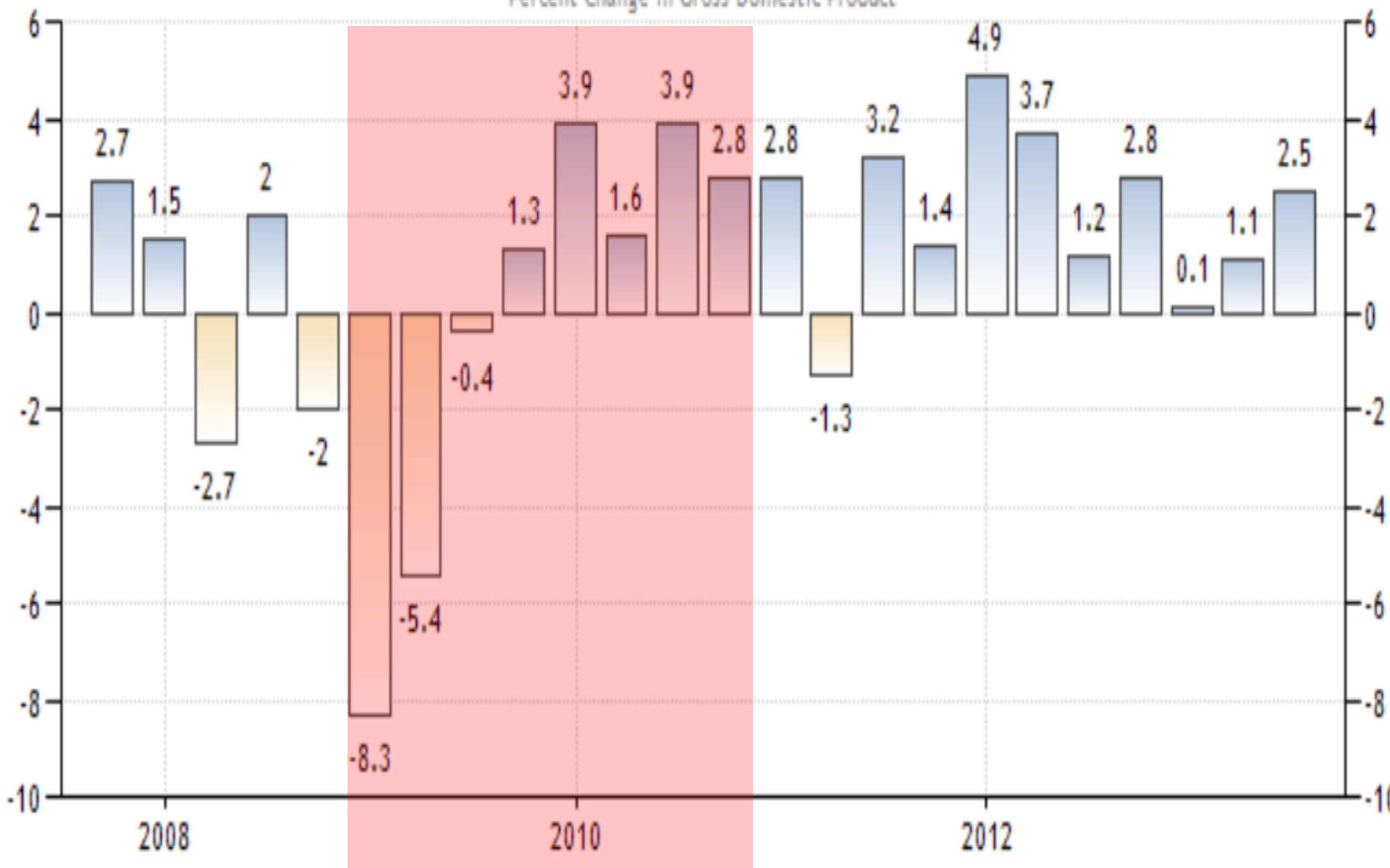


**GDP per capita**

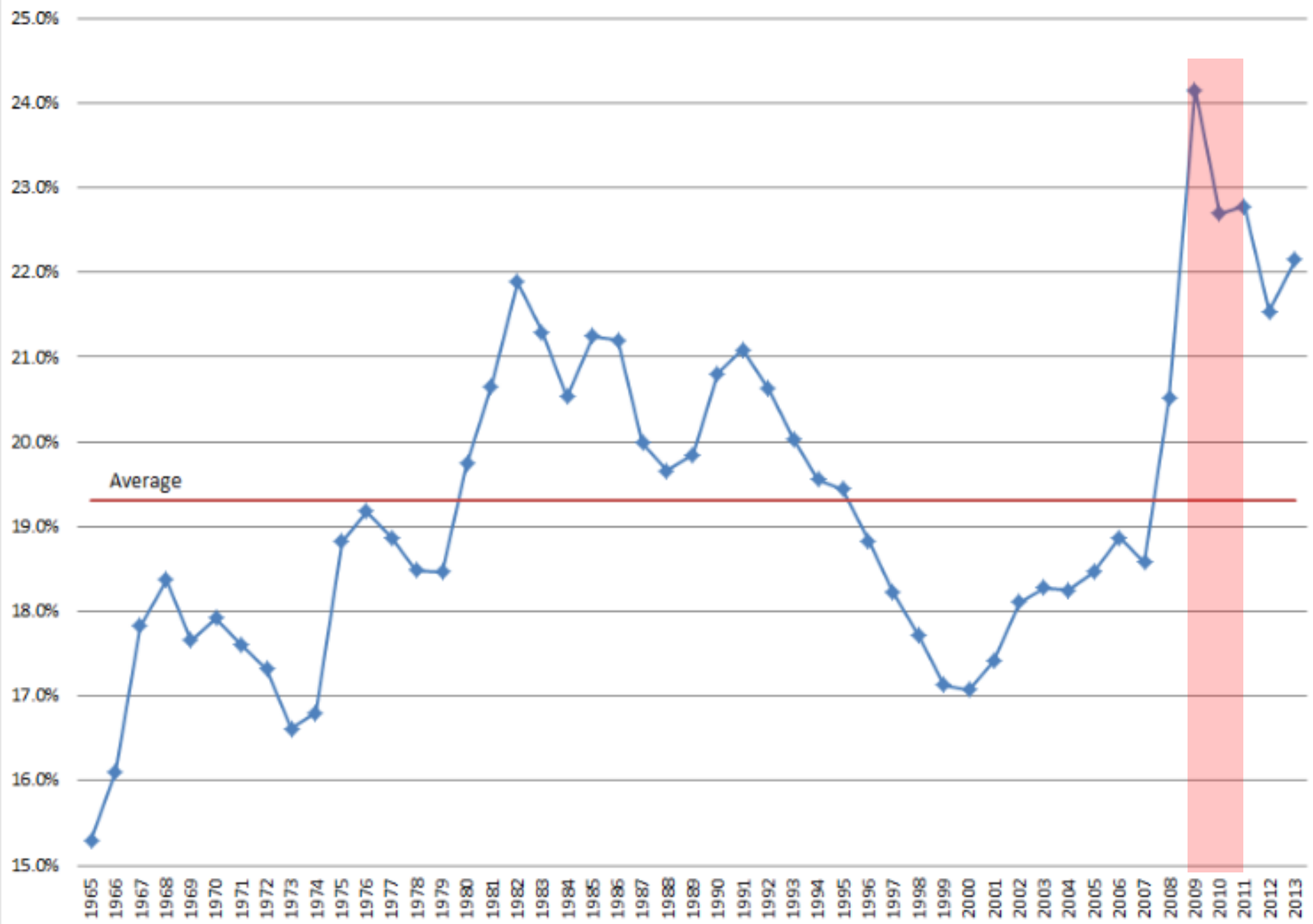
**Who has a larger GDP per capita  
India or Israel?**

# UNITED STATES GDP GROWTH RATE

Percent Change in Gross Domestic Product

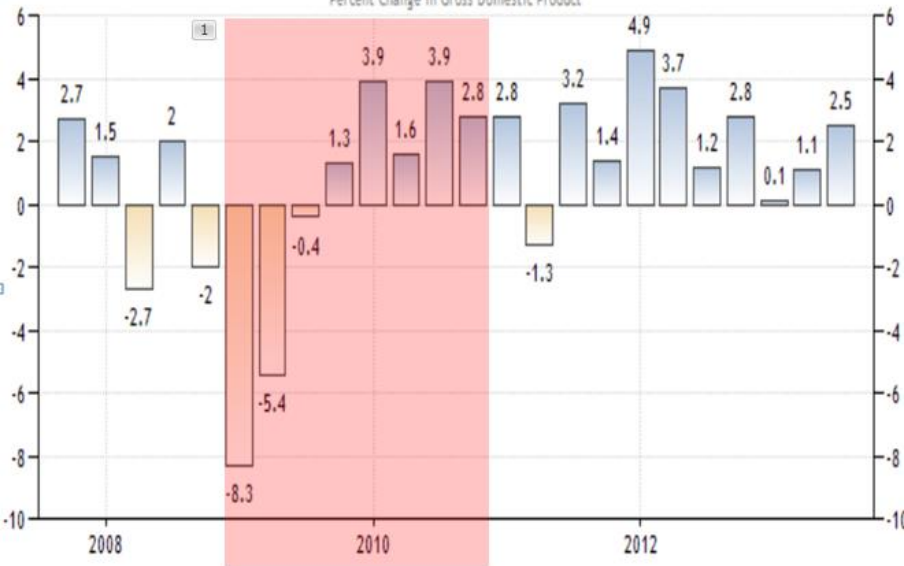


# Federal Spending as Percentage of GDP



UNITED STATES GDP GROWTH RATE

Percent Change in Gross Domestic Product



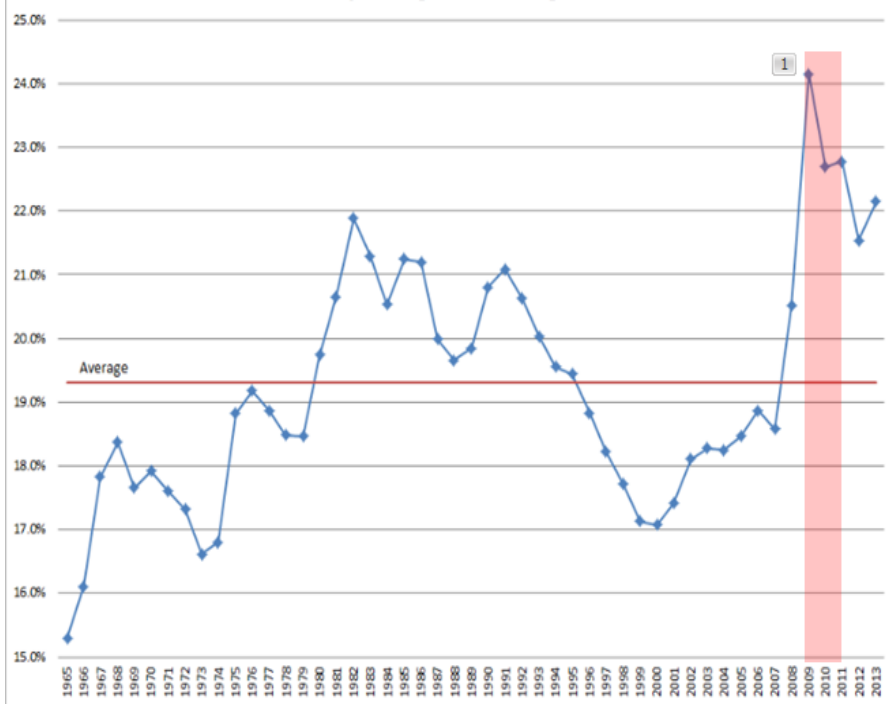
# The American Recovery and Reinvestment Act of 2009

\$803.1 Billion

If the goal is to increase GDP does it matter who is spending?

C or G or I

Federal Spending as Percentage of GDP



Explain?

If the goal is to increase the standard of living does it matter who is spending?

Explain?

What is GDP?

What does it tell us about the health of an economy?

Why is GDP a good indication of a nation's standard of living?

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## **CPQ 4/13**

### **GDP**

- 1. Define G.D.P. (5 points)**
- 2. What factors go into calculating the G.D.P. ? (you must write them out)**

**Is it part of the U.S. GDP for 2015?**

- a. Ford builds a car in the United States in 2015?**
- b. Ford buys steel to go into the car?**
- c. A Ford factory located in Germany build a car in 2015?**
- d. A person buys a used Ford truck built 1976?**

**Define**

- a. Nominal GDP**
- b. Real GDP**
- c. GDP per capita**



Flaws according to RFK

Things is counts toward progress?

Things it doesn't?

GDP is intended to show progress in society.

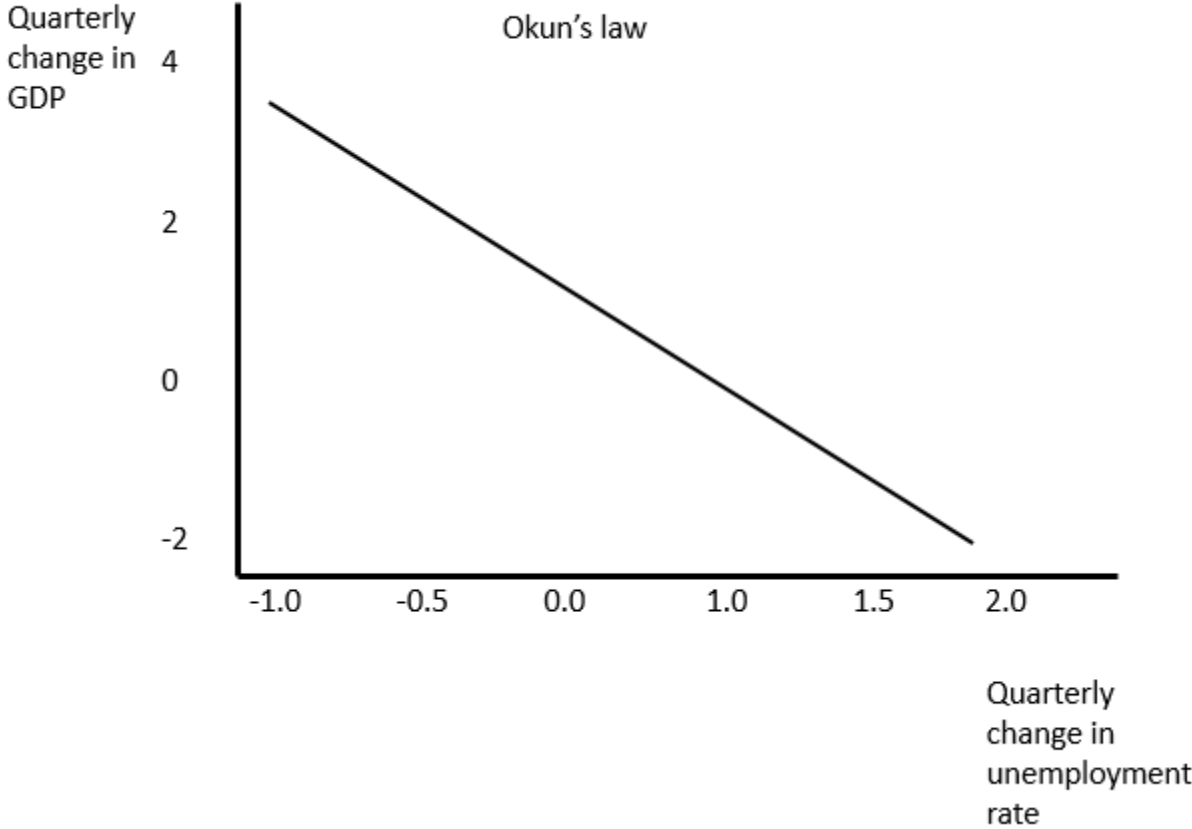
It is incomplete.

What other factors do you think should be considered if we were to show true progress in a society?

Many economist claim that when there is an increase in unemployment, there is a decrease in GDP. On average a percent increase in unemployment causes a 2% fall in GDP.

### Okun's law

According to Arthur Okun, when unemployment falls by 1%, GNP rises by 3%. Only true in U.S. labor market and when unemployment falls between 3% and 7.5%



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