2 Measuring the economy - GDP – Part 1

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	Write it 3 times (English)		
circular flow			
Gross domestic product (GDP)			
consumption			
investment			

Recall

You have heard economic news before:

- "GDP" is used to measure how big an economy is.
- Money flows between households and businesses.
- A country's total output is a sign of its wealth.

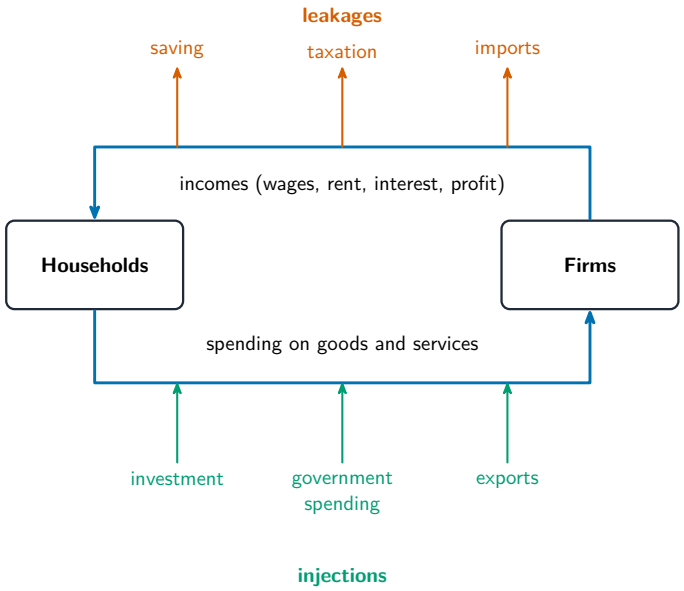
This sheet lines up how we measure the whole economy. Each idea has a worked example.

New ideas

■ 1 The circular flow

The **circular flow** shows money moving between **households** and **firms**: households supply labour and earn income; firms sell goods and earn revenue. Every dollar of spending is someone's income.

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2 Gross domestic product

Gross domestic product (GDP) is the total market value of all **final** goods and services produced in a country in a year. By the spending method:

$$GDP = C + I + G + X_n,$$

that is **consumption** + **investment** + government purchases + net exports.

Worked example. If $C = \$70\text{b}$, $I = \$20\text{b}$, $G = \$25\text{b}$, and net exports $X_n = -\$5\text{b}$, then $GDP = 70 + 20 + 25 - 5 = \$110\text{b}$.

3 What GDP leaves out

GDP measures market output, not well-being. It **misses** unpaid housework, the underground economy, leisure, and environmental damage.

GDP per capita **shows**	but it **misses**
✓ average output per person	✗ how income is distributed
✓ domestic production	✗ unpaid household services
✓ real change, if price-adjusted	✗ pollution and resource use
✓ one living-standard indicator	✗ leisure, health, wellbeing

also check distribution, living conditions and measurement quality

■ 4 GDP per person

GDP per capita (GDP ÷ population) is a better guide to average living standards than total GDP.

Watch out: GDP counts only **final** goods, to avoid double counting. The steel in a car is not counted separately – its value is already inside the finished car's price.

Practice

Try these in order. The methods are all above.

2.1 State what GDP measures. [2]

2.2 Write the four parts of GDP by the spending method. [2]

2.3 Find GDP if $C = \$50\text{b}$, $I = \$15\text{b}$, $G = \$20\text{b}$, and $X_n = \$5\text{b}$. [2]

2.4 Give two things that GDP fails to measure. [2]

2.5 State why only final goods are counted in GDP. [2]

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