

Lesson 6.1: All About GDP

"All About GDP" is from *Advanced Placement Economics: Macroeconomics: Student Activities*, by John S. Morton, National Council on Economic Education, 1996.

Part A. Is This Counted as Part of GDP?

Which of the following are *included* and which are *excluded* in calculating this year's GDP? Explain your decisions.

1. A monthly check received by an economics student who has been granted a government scholarship.
2. A farmer's purchase of a new tractor.
3. A plumber's purchase of a used truck.
4. The cashing of a U.S. government bond.
5. The services of a mechanic in fixing the radiator on his car.
6. A Social Security check paid by the government to a retired store clerk.
7. An increase in business inventories.
8. The government's purchase of a new submarine for the Navy.
9. A barber's income from cutting hair.
10. Income received from the sale of Nike stock.

Part B. GDP: Is It Counted and Where?

For each of the following items, write one of the following in the space provided.

C if the item is counted as *consumption*.

I if the item is counted as *investment*.

G if the item is counted as *government*.

N if the item is *not counted* in GDP.

1. You spend \$7.00 to attend a movie. _____
2. A family pays a contractor \$100,000 for a house he built for them this year. _____
3. A family pays \$75,000 for a house built three years ago. _____
4. An accountant pays a tailor \$175 to sew a suit for her. _____
5. The government increases its defense expenditures by \$1,000,000,000. _____

Lesson 6.1, cont'd.

6. The government makes a \$90 Social Security payment to a retired person. _____
7. You buy General Motors stock for \$1,000 in the stock market. _____
8. At the end of a year, a flour-milling firm finds that its inventories of grain and flour are \$10,000 above the amounts of its inventories at the beginning of the year. _____
9. A homemaker works hard caring for her spouse and two children. _____
10. Ford Motor Company buys new auto-making robots. _____
11. You pay \$300 a month to rent an apartment. _____
12. Apple Computer Company builds a new factory. _____
13. R.J. Reynolds Company buys control of Nabisco. _____.
14. You buy a new Toyota that was made in Japan. _____
15. You pay tuition to attend college. _____

Part C. Why Are Things Counted or Not Counted in GDP?

1. We count only the final retail price of a new good or service in GDP. Why?

2. A purely financial transaction will not be counted in GDP. Why not?

3. When a homeowner does home improvement work, the value of the labor is not counted in GDP. Why not?