

GDP: Definitions

1. A trade deficit occurs when _____ exceed _____.
2. If the base year is 2010, then real and nominal GDP in 2010 will be equal
 - a. True
 - b. False
3. What do we add to GDP to reach GNP?
 - a. Net Income earned abroad by U.S. households
 - b. Personal Income
 - c. Depreciation
 - d. Net Exports
4. Which of the following is not a component of GDP?
 - a. Consumption
 - b. Investments
 - c. Producer Price Index
 - d. Government purchases
5. State whether the following actions will increase or decrease GDP or will not make a change to GDP.
 - a. An individual sells his/her house through on his/her own. _____
 - b. An unemployed worker gets a job. _____

6. Use data from the following table to answer the following questions

	Quantities Produced		Prices	
	CDs	Tennis Rackets	Price per CD	Price per Tennis Racket
2011	100	200	\$20	\$110
2012	120	210	22	120

- Calculate real GDP for 2012 using prices from 2011. _\$_____
- By what percent did real GDP grow from 2011 to 2012? _____%_
- Calculate real GDP for 2011 using prices from 2012. _\$_____
- By what percent did real GDP grow from 2011 to 2012? _____%_

Answers:

- Imports; exports
- by definition
- $GNP = GDP + \text{earnings by US households and firms abroad} - \text{earnings in the US by foreign households and firms.}$
- $GDP = C + I + G + (X - M)$
- no change The house gets counted once, only, when it is new
 - increase The worker goes from being unemployed, producing no output to a positive output.
- To start, it would be good to calculate Nominal GDP for 2011 and 2012, which are \$24,000 and \$27,840, respectively.

 - \$25,500 $(120 * \$20) + (210 * \$110)$
 - 6.25% $(25,500 - 24,000)/24,000$
 - \$26,200 $(100 * \$22) + (200 * \$120)$
 - 6.259542% or 6.26% $(27,840 - 26,200)/26,200$

Where: **C = Consumption Expenditure**
I = Investment Expenditure
G = Government Expenditure
X = Exports
M = Imports
(X - M) = Net Exports