

Gross Domestic Product

Measuring Short-Run Economic Growth

Fluctuations in output are measured by increases or decreases in the quantity of goods and services produced in the economy over time. The *gross domestic product*, or GDP, is commonly used to measure economic growth. The GDP is the dollar value of all *final* goods and services produced in the economy during a stated period.

Final goods are goods intended for consumers. For example, gasoline is a final good purchased by consumers but crude oil, used to make gasoline, is not.

Note that GDP does not count the purchase of secondhand goods or stocks and bonds because these do not represent new production during the year. GDP also does not include items that are not exchanged in a legal market (e.g., mowing your own lawn, caring for your own children, or purchasing illegal goods).

Is This Counted as Part of GDP?

Determine if each of the following is included or excluded when calculating GDP. Briefly explain why.

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 two-year-old used truck
4. Cashing a U.S. government bond
5. The services of a barber cutting his own hair
6. A Social Security check from the government to a retired store clerk
7. Chevrolet's purchase of tires to put on the cars they are producing
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

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 spending*.

I if the item is counted as *investment spending*.

G if the item is counted as *government spending*.

Xn if the item is counted as *net exports*.

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

- ____11. You spend \$10.00 to see a movie.
- ____12. A family pays a contractor \$150,000 for a house he built for them this year.
- ____13. A family pays \$75,000 for a house built three years ago.
- ____14. An accountant pays a tailor \$175 to sew a suit for her.
- ____15. The government increases its defense expenditures by \$1,000,000,000.
- ____16. The government makes a \$300 Social Security payment to a retired person.
- ____17. You buy McDonald's stock for \$1,000 in the stock market.
- ____18. At the end of a year, a flour-milling firm finds that its inventories of grain and flour are \$10,000 higher than its inventories at the beginning of the year.
- ____19. Parents work hard caring for their two children.
- ____20. Ford Motor Company buys new auto-making robots.
- ____21. You pay \$800 a month to rent an apartment.
- ____22. Consumer electronics corporation Apple Inc. builds a new factory in the United States.
- ____23. R.J. Reynolds buys control of Nabisco.
- ____24. You buy a new Toyota that was made in Japan.
- ____25. You pay tuition to attend college.