

GDP

There are over one hundred fifty million workers and twenty seven million businesses in the United States. How can we possibly measure how much each worker and business produces?

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How strong is the economy? One way our government tries to answer this question is to measure how many goods and services all of the workers and businesses produce.

There are over one hundred fifty million workers and twenty seven million businesses in the U.S. How can we possibly measure how much each worker and business produces and then combine it all into one number? Think about all the hamburgers, TVs, cars, homes, and anything else you can probably imagine. All of it has to be measured to be included in the final number.

This may seem impossible at first, however, instead of counting the actual goods produced, economists tally how much money these goods and services sold for. This number is known as the gross domestic product or GDP.

What Is the GDP?

The GDP measures the value of goods and services produced by a country in one year.



The GDP measures the value of goods and services produced by a country in one year. It's an approximate number since the total amount of goods can never be counted with complete accuracy, but it is very useful for comparing how much a country produces from year to year, as well as how much a country produces compared to other countries.

It's a broad measure of well the economy is doing.

What Do Economists Count?

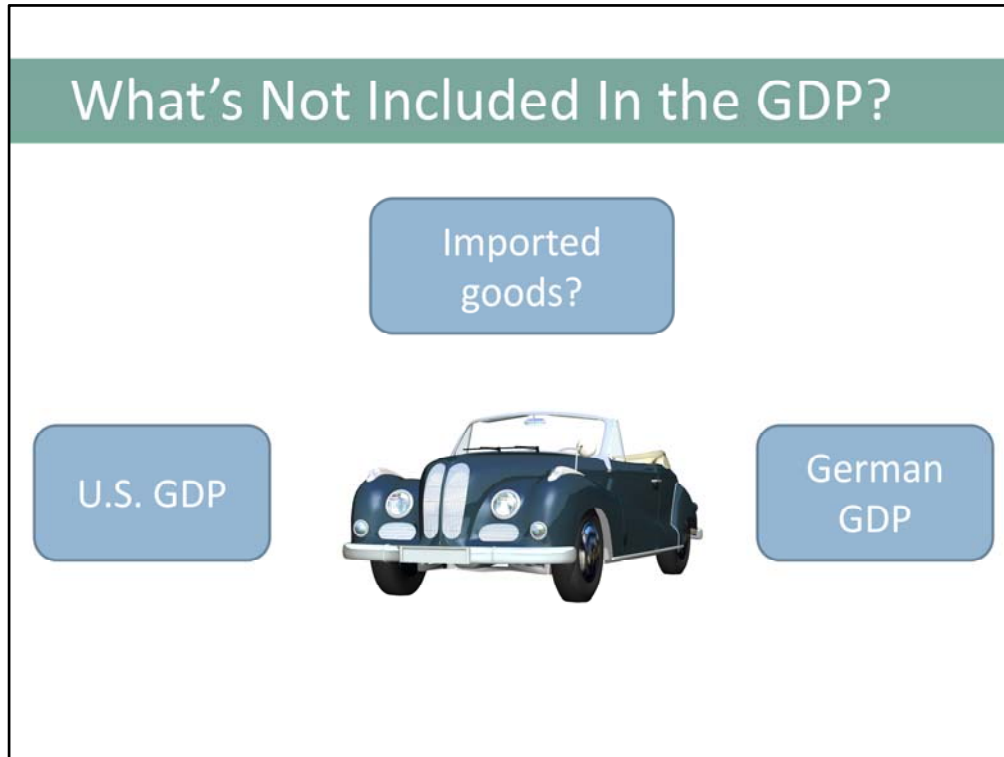


Only the final value of the car is included in the GDP, not the value of the intermediate goods.

What do economists count to come up with the GDP? Do they count the value of complete products like a whole TV, or do they count the value of all the pieces that go into making the TV?

Think about your jeans. Say one company makes the thread, one makes the buttons and one designs and manufactures the final product. Do economists count the value of each of these items? No. In order to avoid counting each item twice, economists only count a product in its final form or the final good, in this example the value of the jeans that you bought at the store. Any materials that went into the final product, say the buttons or the thread, are considered intermediate goods, goods used to make a final good or service.

Consider another example. Let's say you buy a car. The final product is the car. The components that go into manufacturing the car, like the windshield, engine, seats, et cetera are considered intermediate goods. Only the final value of the car is included in the GDP, not the value of the intermediate goods.



So the GDP counts every item once, and only the final product.

What about imported items, items made in other countries, but sold in the U.S.? Do these count as part of our GDP? For example, if you bought a Mercedes Benz, do we count that as part of the GDP of Germany or the U.S.?

Remember that the *P* in GDP stands for product, so we have to look where the item was produced to answer the question. Since the car was manufactured in Germany, it's part of their industrial output and counts on their GDP. Therefore, economists don't include the value of imported items sold in the U.S.

Also, the GDP only counts *paid* activities that were *reported*. If you get paid an allowance for doing your chores, or for babysitting the kids next door, that's not counted because it wasn't reported to the government and taxed. Likewise, if your brother who is a mechanic works on your car as a favor to you for no money, this would not be counted in the GDP.

GDP Equation

$$\text{GDP} = C + I + G + (X - M)$$

Go to practice.

Economists use this equation to determine the GDP. Select each of the letters to see what they stand for. After you have reviewed the terms, try your hand at determining whether different things are counted in the GDP.

$$\text{GDP} = C + I + G + (X - M)$$

Consumer Spending
All of the money that consumers spend on goods and services.

Go to practice.

$$\text{GDP} = C + I + G + (X - M)$$

Investment Spending

The total amount of money spent on business investments for new items and to replace existing items.

Go to practice.

$$\text{GDP} = C + I + G + (X - M)$$

Government Spending
All money spent by the government for goods and services like roads, buildings, social programs, and weapons.

Go to practice.

$$\text{GDP} = C + I + G + (X - M)$$

Exports

The total value of all goods sold to foreign companies or countries.

Go to practice.

$$\text{GDP} = C + I + G + (X - M)$$

Imports

The total value of all goods bought from foreign companies by businesses, individuals, or the government.

Go to practice.

What Is Counted In the GDP

Question

To count or not to count?

Imagine you're an economist working for the government and it's your job to determine whether items should be included in the calculation of the GDP, and if so, classify them as one of three types of purchases: consumer goods and services (C), investment spending (I), or government purchases.

$$\text{GDP} = C + I + G + (X - M)$$

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Per Capita GDP

$$\text{GDP Per Capita} = \frac{\$14.8 \text{ Trillion}}{307 \text{ Million}}$$

While the GDP is an important measurement used to determine the overall economic health of a country, in order to compare how well off people are in different countries, economists often use the GDP per capita number. This number measures the productivity of each person in the country by measuring how much each person in the country produces. In general, the higher the GDP per capita, the richer the people living in that country are.

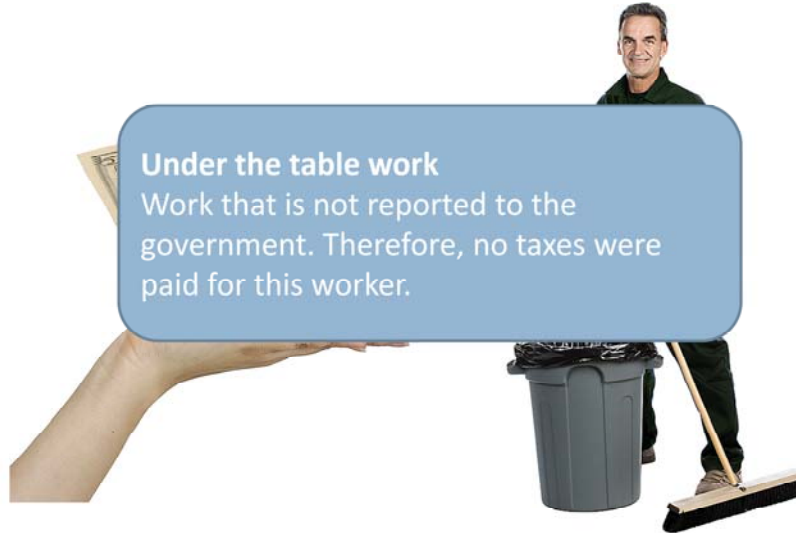
This is not always the case as there could be a few extremely rich people in the country, while the majority of people are poor, and very few people who are middle class.

In order to determine the GDP per capita, simply divide the GDP by the population. For example, the population of the U.S. is approximately three hundred and seven million people, and the GDP is approximately fourteen point eight trillion dollars. This works out to be around forty-eight thousand dollars per capita.

Money Isn't Everything

Under the table work

Work that is not reported to the government. Therefore, no taxes were paid for this worker.

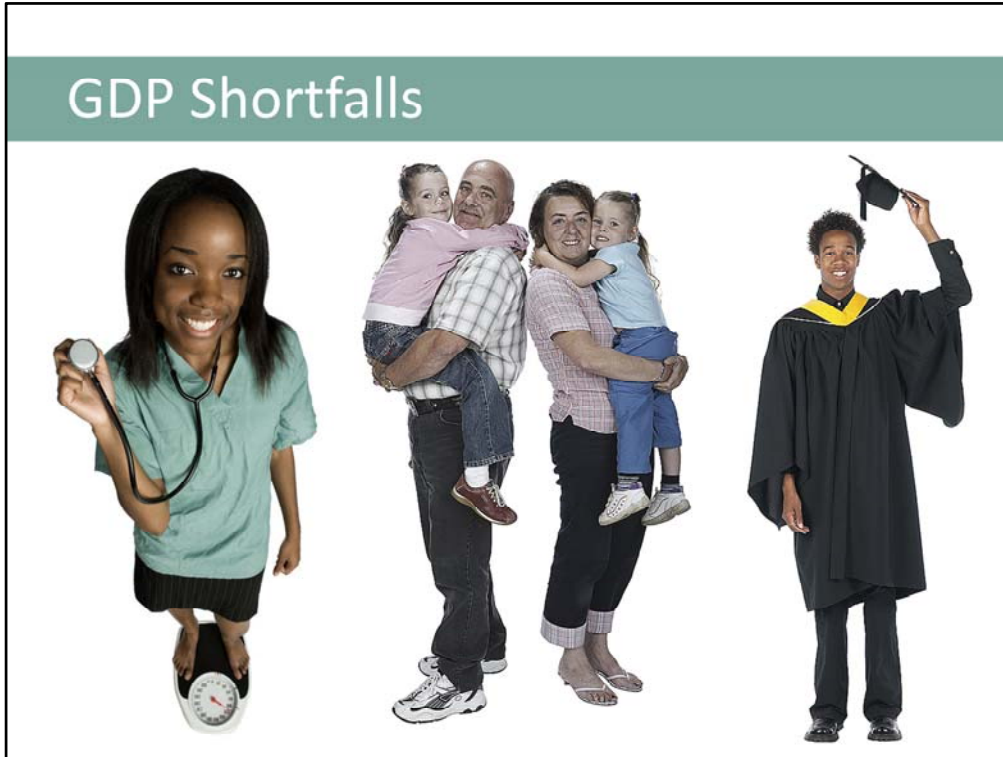


Although the GDP is a useful tool for measuring economic activity, it does have some shortfalls.

As mentioned earlier, GDP only measures official activities that are reported to the government and taxed. Does that mean that paid work is more important than unpaid work? Well, if you consider cleaning up around your house and cooking meals for your family to be work, then there is certainly some very important work that goes unpaid every day. Certainly if you hired someone to clean your house or cook your food, it would cost you money.

It also doesn't count illegal goods and services like drugs, illegal gambling, or people working "under the table." This last category is important, because there can be many people who are being paid to work in jobs that are not reported to the government. This can make the official GDP figure less accurate if a lot of work is done "under the table."

GDP Shortfalls



Finally, GDP doesn't measure well-being, things like how healthy a population is, how long people are expected to live, how educated they are in addition to how much money they have. There are countries that may not have as high a GDP as the U.S., but may have longer life expectancies among other things. As we all know, money isn't everything. Just because someone is rich, it doesn't mean they can buy many of the things that make us happy.

Regardless, the GDP is a very important number that is frequently used to measure the economy's health. Let's look at some others.