Final Exam Review – Part 1 (Chapter 1-3) is due when the bell rings for 5 points extra credit. I will not accept it after class begins.

You will get Part 2 today and it will be due on Friday so please plan your time accordingly.

I will be collecting Chapter 10 as soon as the video is over today. Remember, I do not accept late work at this point of the semester.

After the video, we’ll start Chapter 11 which we will finish on Friday. We’ll also work on the Stock Market Project some more on Friday.
What Is Gross Domestic Product?

- Gross domestic product (GDP) is the total market value of all final goods and services produced annually in a country.
- Gross domestic product can be determined by multiplying the price of each good by the quantity produced of that good.
Why Count Only Final Goods?

- An intermediate good is a good that is not ready for use or purchase. It could be a good that is partially assembled. It could even be the components that are used in producing a final product.

- Suppose economists counted both final and intermediate goods and services when they computed GDP. Then they would be **double counting**, or counting goods more than once.
Does GDP Omit Anything?

- We do not count illegal goods and services in GDP because we do not have any records of their sale or purchase.

- Any legal transaction that is not recorded also cannot be counted. If someone is paid in cash, with no sales receipt, the transaction is not likely to be recorded.

- We do not count goods and services that are traded outside official market settings.

- The sale of used goods is not counted in GDP.

- Stock transactions and other financial transactions are also not included in GDP.

- Government payments, such as social security checks, are not exchanged for goods or services, and are also not counted in GDP.
The Difference Between GDP and GNP

- GNP is the gross national product.
- GNP is a measure of the total market value of final goods and services produced by U.S. citizens, no matter where in the world they live.
- GDP is the total market value of all final goods and services produced within the borders of the United States, no matter who produces them.
How Is GDP Measured?

- The GDP of the United States in 2005 was more than $12 trillion.
- Economists determined this number by adding up the amount spent by four sectors: household, business, government, and foreign.
  - Amounts spent by the household sector are called consumption.
  - Amounts spent by the business sector are called investment.
• Amounts spent by the government sector are called **government purchases**. As mentioned before, government purchases do not include government transfer payments.

• Spending by residents of other countries on goods produced in the United States is called **export spending**. Spending by Americans on foreign-produced goods is called **import spending**.

  ▶ All goods produced in the economy must be bought by someone in one of the four sectors of the economy. Summing the spending of the four sectors and subtracting import spending will give a good estimate of GDP.
## The Expenditures Made by the Four Sectors of the Economy

<table>
<thead>
<tr>
<th>Sector of the economy</th>
<th>Name of expenditures</th>
<th>Definition</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household</td>
<td>Consumption</td>
<td>Expenditures made by the household sector on goods for personal use</td>
<td>TV sets, telephones, clothes, lamps, cars</td>
</tr>
<tr>
<td>Business</td>
<td>Investment</td>
<td>Expenditures made by the business sector on goods used in producing other goods; also includes business inventories</td>
<td>Tools, machines, factories</td>
</tr>
<tr>
<td>Government</td>
<td>Government purchases</td>
<td>Expenditures made by federal, state, and local governments</td>
<td>Paper, pens, tanks, planes</td>
</tr>
<tr>
<td>Foreign</td>
<td>Exports</td>
<td>Expenditures made by foreigners for American-made goods</td>
<td>Cars, wheat, computers</td>
</tr>
<tr>
<td></td>
<td>Imports</td>
<td>Expenditures made by Americans for foreign-made goods</td>
<td>Cars, radios, computers</td>
</tr>
</tbody>
</table>
Calculating GDP

Gross domestic product (GDP) is the total market value of all final goods and services produced annually in a country.

\[ \text{GDP} = C + I + G + \text{EX} - \text{IM} \]

Note that import spending is *subtracted* when calculating GDP.
Is Every Good That Is Produced Also Sold?

Yes. The government assumes that everything that is produced is purchased by someone.
GDP Versus Quality of Life

- Greater production of goods and services is only one of the many factors that contribute to being better off or possessing greater well-being.

- All other things being equal, greater production may result in reduced leisure time or reduced family time.

- Population must be considered when comparing the GDP of two different nations:

- Per capita GDP = GDP ÷ Population.