

Lesson 6.1: All About GDP

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?

Describe groups that are hurt by inflation and groups that benefit from inflation. Circle:

H if the person or group is *hurt* by inflation.

G if the person or group *gains* from inflation.

U if it is *uncertain* if the person or group is affected by inflation or if the effects are unclear.

Then explain why you answered as you did.

1. Banks extend many fixed-rate loans.

H G U Why?

2. A farmer buys machinery with a fixed-rate loan to be repaid over a 10-year period.

H G U Why?

3. Your family buys a new home with an adjustable-rate mortgage.

H G U Why?

4. Your savings from your summer job are in a savings account paying a fixed rate of interest.

H G U Why?

5. A widow lives entirely on income derived from fixed-rate corporate bonds.

H G U Why?

6. A retired couple lives entirely on income from a pension the woman receives from her former employer.

H G U Why?

7. A retired man lives entirely on income from Social Security.

H G U Why?

8. A retired bank official lives entirely on income from stock dividends.

H G U Why?

Lesson 6.2, cont'd.

9. The federal government has a \$5,000,000,000 debt.
H G U Why?
10. A firm signs a contract to provide maintenance services at a fixed rate for the next five years.
H G U Why?
11. A state government receives revenue mainly from a progressive income tax.
H G U Why?
12. A local government receives revenue from fixed-rate license fees charged to businesses.
H G U Why?
13. Your friend rents an apartment with a three-year lease.
H G U Why?
14. A bank has loaned millions of dollars for home mortgages at a fixed rate of interest.
H G U Why?
15. Parents are putting savings for their child's college education in a bank savings account.
H G U Why?
16. What conclusions can you draw about who is helped and who is hurt by inflation?
17. If you were certain that the inflation rate would be 10% a year for the next 10 years, how might your behavior change?