**Measuring GDP**

**Slide 1:**

- GDP of the U.S. is over 12 trillion
- How do economist get that number?
- Break the economy into four sectors

1. Household
2. Business
3. Government
4. Foreign

**Slide 2:**

1. Each sector buys goods and services
2. Economists label each one
3. Households: consumption
4. Business expenditures: investment
5. Government expenditures: government purchases (includes all three levels: state, local, federal)
6. Expenditures made by residents of other countries on goods produced in the U.S. are called export spending

**Slide 3:**

1. If you go and buy a new tv, it falls into consumption
2. If a business buys a new machine to put into its factory, its an investment
3. If the U.S. gov't purchases a tank from a company that makes tanks, its a government purchase
4. If a person living in Sweden buys a U.S. produced shirt , it is export spending

**Slide 4:**

1. All goods produced in the economy must be bought by someone in one of the four sectors of the economy
2. Economists imply sum the expenditures made by each sector
3. It brings them close to computing the GDP
4. They still need to adjust for U.S. purchases of foreign produced goods

**Slide 5:**

1. Jordan buys a Japanese made television for 500 dollars
2. 500 is not included in GDP because it measures goods and services produced annually in a country
3. Jordan's tv was not made in the U.S., so its not part of U.S. GDP
4. Spending by Americans on foreign produced goods is called import spending

**Slide 6:**

1. To compute U.S. GDP, we need to sum consumption ( c ), investment (I), Government purchases G, export spending ex and subtract import spending IM
2. GDP =  C + I + G + EX - IM

**Slide 7:**
1. First quarter of 2005:
2. Consumption in the U.S. was 8.5 trillion,
3. Investment 2 trillion
4. Government purchases were 2.2 trillion
5. Exporting spending was 1.2 trillion
6. And import spending was 1.9 trillion

8.5 + 2 + 2.2 + 1.2 - 1.9 = 12 trillion

**Slide 8:**
1. Definition of GDP is the total market value of all final goods and services produced annually in an economy
2. We measure GDP by how much the four sectors of the economy spend on goods and services
3. What if something is produced but not purchased
4. Is it included in GDP or not?

**Slide 9:**
1. Car company produces 10,000 new cars
2. But the household sector only buys 8900
3. That means 1,100 cars were not sold
4. Were they counted in GDP
5. Yes because the government statisticians who measure GDP assume that everything produced is purchased by someone.
6. Government assume that the car company purchased the 1,100 cars that the company did not sell

**Slide 10:**
1. 2004 the GDP of the U.S. was six times larger than France
2. Does that mean Americans live in a country with a higher quality of life than the French? No
3. Greater production of goods and services is only one of the many factors that contribute to being better off or possessing greater well being
4. What we can say is that Americans live in a country in which greater production exists

**Slide 11:**
1. In assessing a country's GDP, its population also has to be considered
2. Suppose country A has double the GDP of country B

3. But country B’s population is three times as large
4. This means that on a per-person basis, each person has fewer goods and services
5. Per capita GDP = GDP/Population