**Chapter 8 – Measures of Economic Activity**

“All progress is precarious, and the solution of one problem brings us face to face with another problem.” – Martin Luther King, Junior.

**After this chapter, you will be able to:**

LO1 - Explain why economists choose to concentrate on Gross Domestic Product (GDP) and describe the two approaches to calculating it

LO2 - Identify real GDP and per capita GDP and their possible uses and limitations when comparing living standards in different years or different countries

LO3 - Distinguish among other economic measures developed from the national income accounts

**Key Terms:**

|  |  |  |
| --- | --- | --- |
| * capital stock, 219 * depreciation, 219 * disposable income, 227 * double-counting, 217 * durable goods, 219 * expenditure approach, 214 * expenditure equation, 218 * exports, 221 * final products, 217 * GDP identity, 215 * government purchases, 220 | * Gross Domestic Product, 214 * gross investment, 219 * Gross National Product, 227 * imports, 221 * income approach, 214 * intermediate products, 217 * inventories, 219 * national income accounts, 214 * net exports, 222 * net investment, 219 * non-durable goods, 219 | * non-market activities, 225 * per capita GDP, 224 * per capita real GDP, 224 * personal consumption, 219 * personal saving, 220 * real GDP, 224 * retained earnings, 216 * transfer payments, 220 * underground economy, 225 * value added, 217 |

**8.1 - Gross Domestic Product – GDP**

National Income Accounts

Measuring GDP

* The income approach (wages and salaries, corporate profits, interest income, proprietors’ income and rents, indirect taxes, depreciation, statistical discrepancy)
* The expenditure approach (personal consumption, gross investment, government purchases, net exports, statistical discrepancy… GDP = C + I + G + (X – M)) 🡪 do not include intermediate products or anything that might result in “double counting,” financial products, or second-hand products outside of the formal economy.

**Thinking about Economics Page 218: Second-Hand Goods**

**Thinking about Economics Page 221: Education Spending**

**Practice Questions Page 223: #1, #2.**

**8.2 – GDP and Living Standards**

Per Capita GDP

Real versus Nominal GDP

Thinking about Economics Page 225: Purchasing Power Parity

The Limitations of GDP

* Excluded activities (non-market activities, the underground economy)
* Product quality (junk or long-lasting?)
* The composition of output (guns and grenades, or schools and hospitals?)
* Income distribution (Gini coefficient?)
* Leisure (working to death, or relaxing on a beach?)
* The Environment (toxic streams or beautiful babbling brooks?)

**Thinking About Economics Page 226 – Overcoming the problems with GDP.**

**8.3 – Other Economic Measures**

Gross National Product (Is everything really just foreign owned?)

Disposable Income (Darn government! How much is actually left to party or save?)

**Practice Questions Page 228: #’s 1, 2.**

Mahbub ul Haq and the Human Development Index (Pages 232-234

Go to <http://www.undp.org/> and research the millennium development goals. What are they? Rank them in your order of preference. How are the goals highlighted by the UNDP not represented in GDP numbers?