

Topic 5. Gross Domestic Product

1. **Problem:** During the year, a small nation produces the following final products--1 million automobiles, 5 million clothing outfits, 10 million pounds of food, rental of 2 million dwelling units, 1 million hours of attorneys' services to households, and 2 million hours of medical services to households. The current market prices for these products are:

\$10,000 per automobile

\$100 per clothing outfit

\$2 per pound of food

\$4,000 per year per dwelling unit

\$20 per hour of attorneys' services

\$30 per hour of medical services

Calculate the nation's nominal gross domestic product.

2. **Problem:** Suppose nominal GDP in the economy increased from \$5,000 billion to \$5,500 billion. Can you conclude that aggregate production, income, and job opportunities increased as well? Explain your answer.

3. **Problem:** Explain why GDP would be overestimated if the market values of both final products and intermediate products were included in it.

4. **Problem:** Suppose the market value of all sales in an economy, including those of intermediate products, is \$10,000 billion. If the market value of intermediate products is \$6,000 billion, what is the total value added in the nation? (Value added equals gross domestic product.)

5. **Problem:** Suppose GDP is currently equal to \$4,500 billion. Consumption is \$3,000 billion, and government purchases are \$1,000 billion. If net exports are zero, how much is gross private domestic investment?

6. **Problem:** Suppose total government expenditures amount to \$1,400 billion. In the same year, the government purchases component of GDP is only \$815 billion. Explain why the government purchases component of GDP falls short of actual government expenditures. Give an example of an important government expenditure that's not included in the government purchases component of GDP.