

All About GDP

Part A

Is This Counted as Part of GDP?

Which of the following are *included* and which are *excluded* in calculating 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 two-year-old used truck
4. Cashing a U.S. government bond
5. The services of a mechanic in fixing the radiator on his own car
6. A Social Security check from 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 A adapted from William B. Walstad, Michael W. Watts, Robert F. Smith and Campbell R. McConnell, *Instructor's Manual to Accompany Economics*, 10th ed. (New York: McGraw-Hill Book Co., 1987), p. 33. Parts B and C written by John Morton, National Council on Economic Education, New York, N.Y.

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 spending*.

I if the item is counted as *investment spending*.

G if the item is counted as *government spending*.

NX if the item is counted as *net exports*.

NC if the item is *not counted* in GDP.

- ___ 11. You spend \$7.00 to attend a movie.
- ___ 12. A family pays a contractor \$100,000 for a house he built for them this year.
- ___ 13. A family pays \$75,000 for a house built three years ago.
- ___ 14. An accountant pays a tailor \$175 to sew a suit for her.
- ___ 15. The government increases its defense expenditures by \$1,000,000,000.
- ___ 16. The government makes a \$300 Social Security payment to a retired person.
- ___ 17. You buy General Motors Corp. stock for \$1,000 in the stock market.
- ___ 18. 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.
- ___ 19. A homemaker works hard caring for her spouse and two children.
- ___ 20. Ford Motor Co. buys new auto-making robots.
- ___ 21. You pay \$300 a month to rent an apartment.
- ___ 22. Apple Computer Co. builds a new factory in the United States.
- ___ 23. R.J. Reynolds Co. buys control of Nabisco.
- ___ 24. You buy a new Toyota that was made in Japan.
- ___ 25. You pay tuition to attend college.

Part C

Why Are Items Counted or Not Counted in GDP?

26. We count only the final retail price of a new good or service in GDP. Why?
27. A purely financial transaction will not be counted in GDP. Why?
28. When a homeowner does home-improvement work, the value of the labor is not counted in GDP. Why?

