

Gross Domestic Product

In this lesson, students will be able to identify characteristics of the Gross Domestic Product.

Students will be able to identify and/or define the following terms:

Gross Domestic Product (GDP)

Real GDP

Inflation

Durable Goods

Do Now:

- What are bonds?

**Invisible Hand:
The Wealth of Adam Smith**



**Edited and Introduced by
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- Do you remember the Invisible Hand?
- It was the idea that the economy would always fix itself.

- But when the Great Depression happened, the economy didn't seem to fix itself.

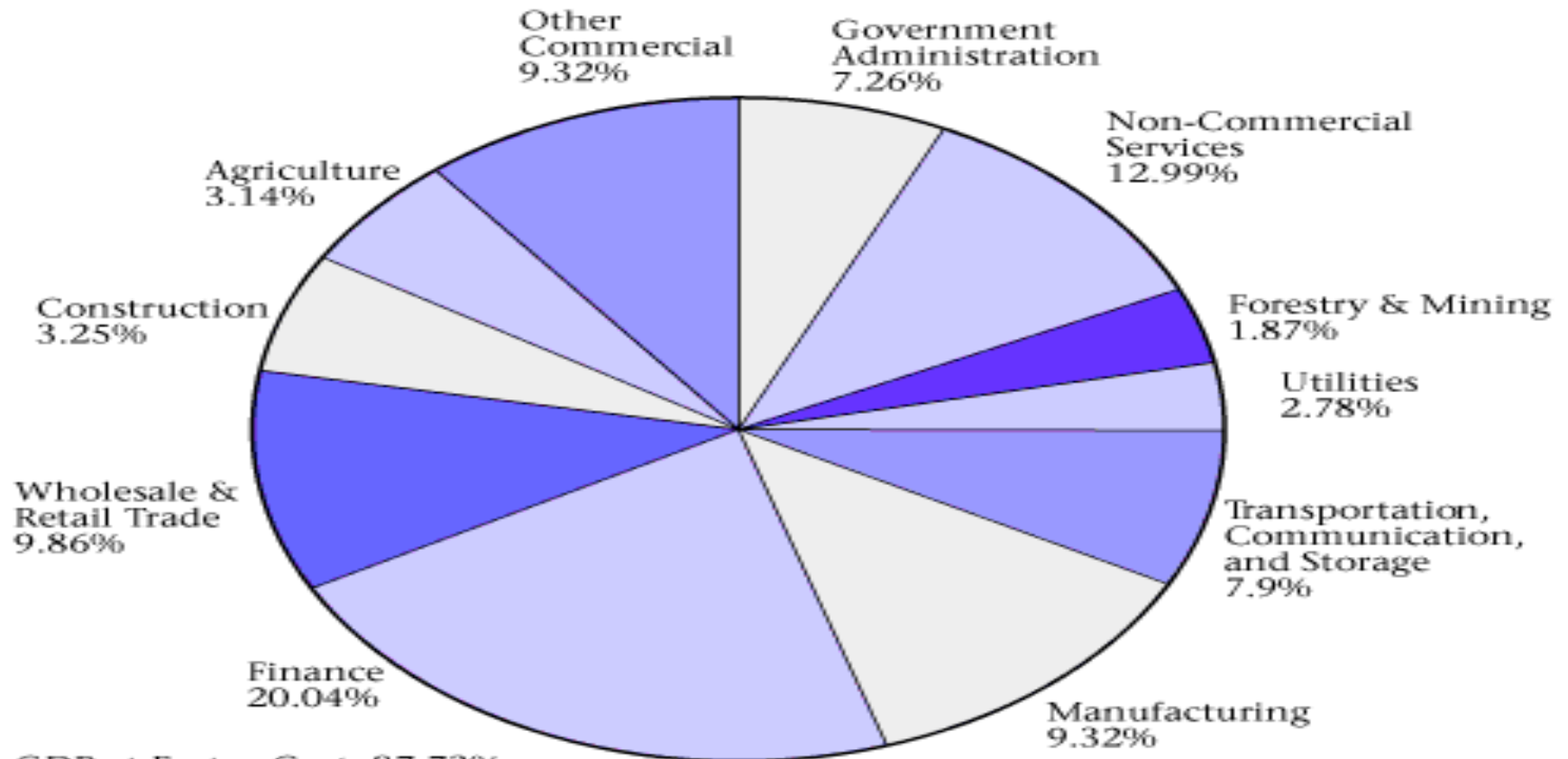


The Effects of the Great Depression **on Economists:**

- The Great Depression taught economists that they needed some way of tracking the nation's economy.
- By tracking the nation's economy, economists could determine if the economy was in danger of a recession or a depression and could try to apply economic policies to prevent such hardships from occurring.

- The Gross Domestic Product (GDP) is a tool for tracking macroeconomic progress.

GROSS DOMESTIC PRODUCT (GDP), BY INDUSTRY



GDP at Factor Cost 87.73%

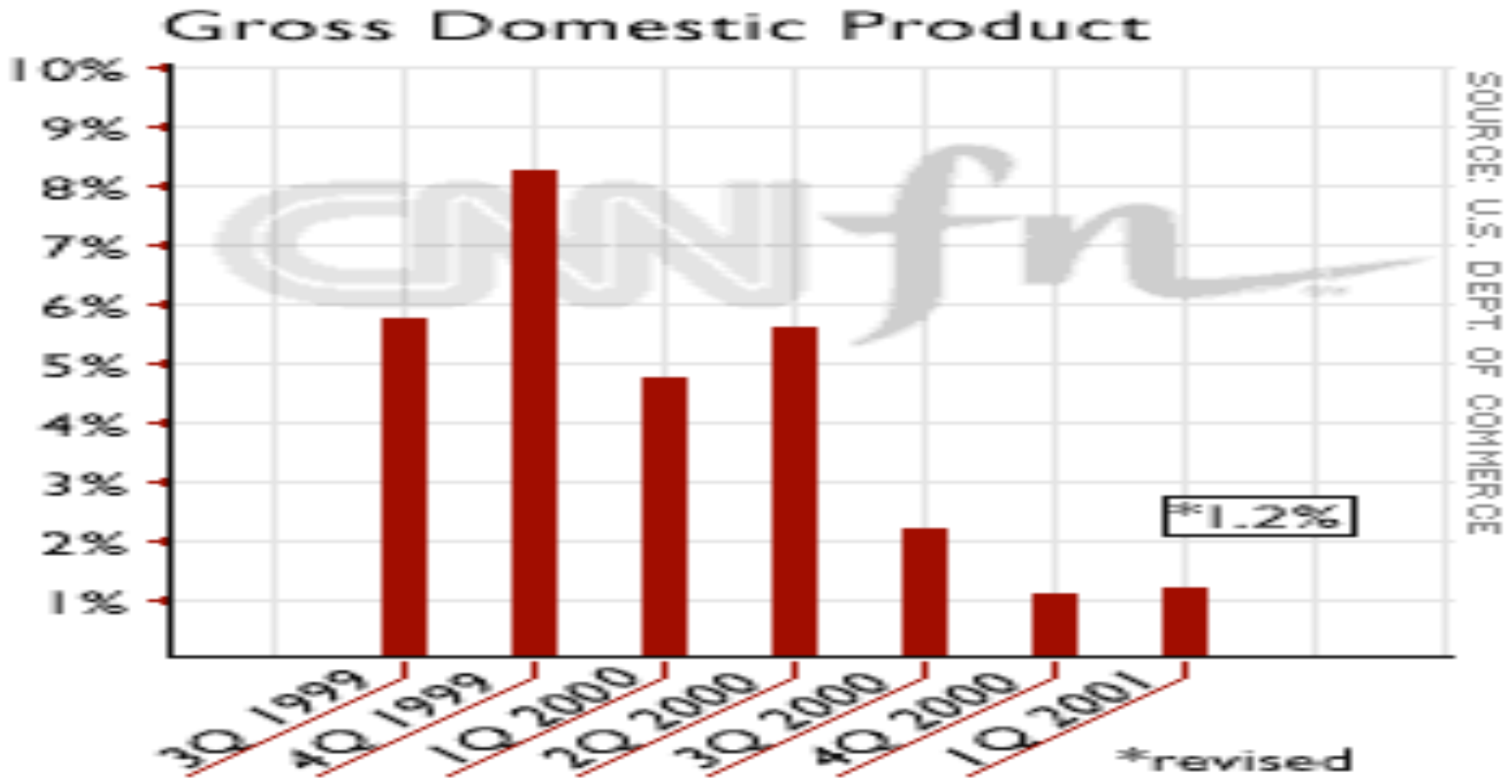
Indirect Taxes - Subsidies 12.27%

Source: Manitoba Bureau of Statistics

Gross Domestic Product (GDP)

- The Gross Domestic Product is the dollar value of all final goods and services produced within a country's borders in a given year.
- In order for a good to be included in a nation's GDP, it must be made in that country.
- It doesn't matter if the factory is owned by a foreign company as long as the factory is located in the country where GDP will be calculated.

- By tracking GDP, economists can tell whether an economy is growing (expanding) or shrinking (contracting).



Gross Domestic Product

- It is critical that the goods and services are made in the country.
- The companies can be foreign owned but must be located in the country.
- This leads to the creation of jobs.
- GDP can be adjusted for inflation.
- It is called real GDP.
- This avoids the problem of rising prices making GDP appear to rise.

Real GDP

- While nominal GDP is expressed in current prices, real GDP is adjusted for inflation.
- Inflation means rising prices.
- The problem with GDP is it could appear to rise when in reality only prices rose.
- In other words, one million in 1970 dollars is not the same as one million in 2019 dollars.
- The 2019 dollars must be adjusted to 1970 dollars in order to effectively compare the two amounts.

- Real GDP is GDP that has been adjusted for inflation.

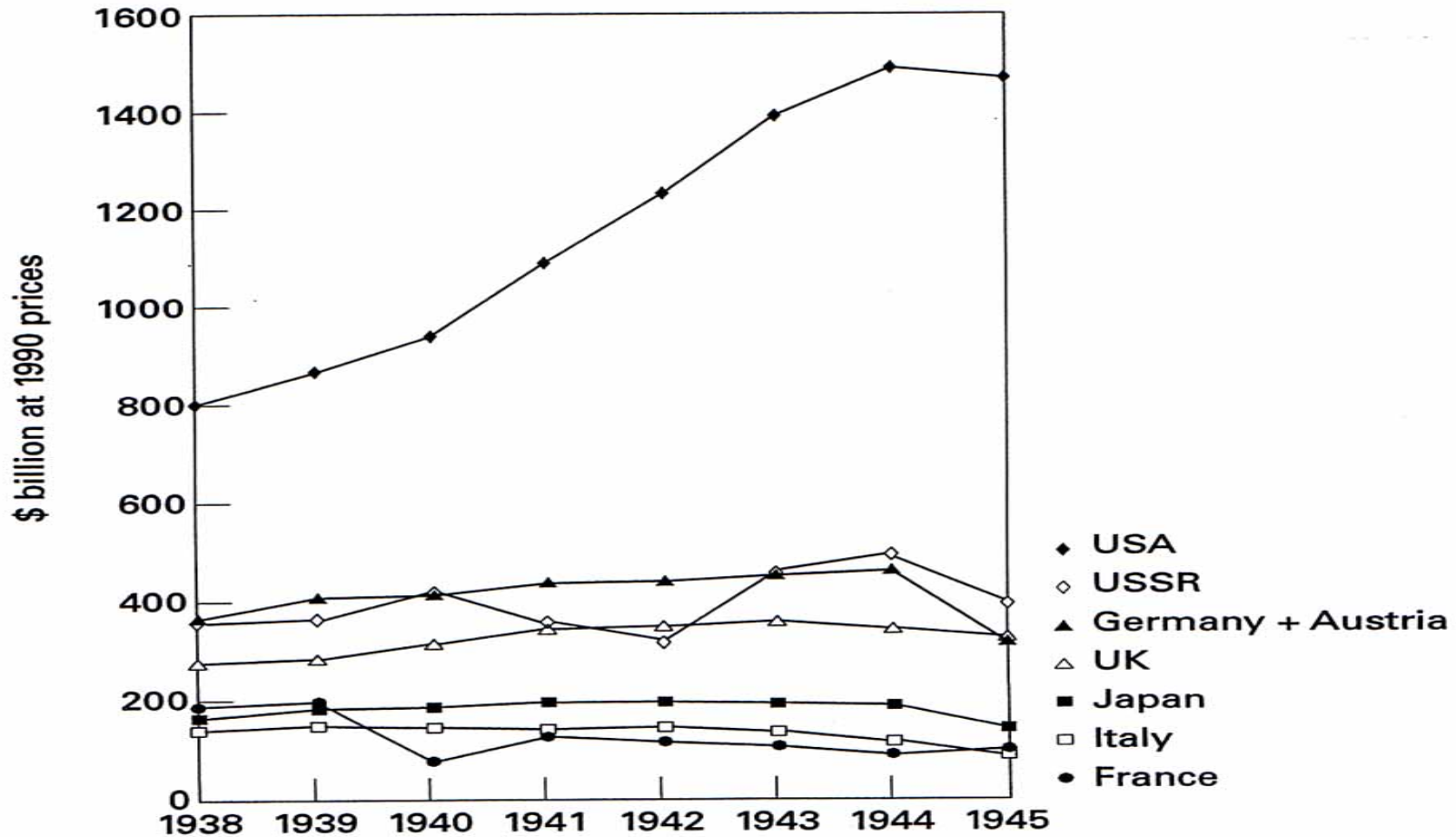


Figure 1.1 Real GDPs of the great powers, 1938–1945

Source: table 1.3

Durable and Nondurable Goods

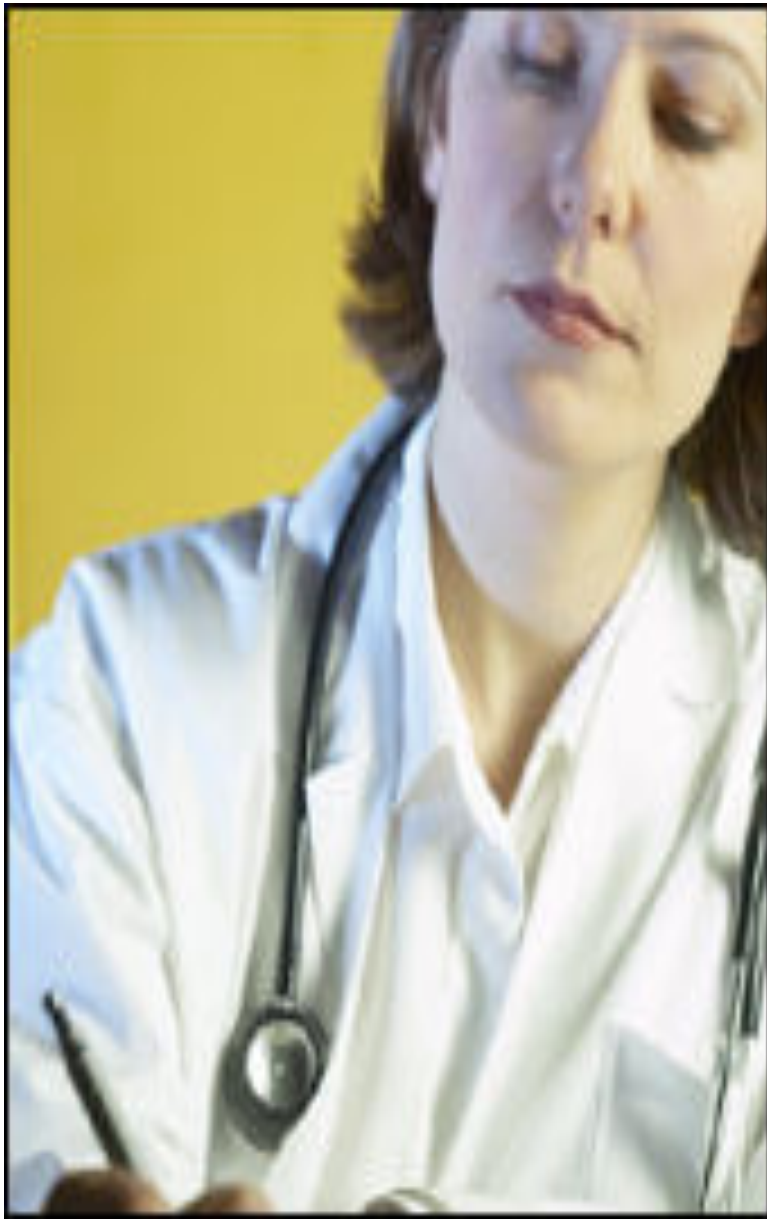
- The goods included in GDP are durable and nondurable goods.
- Durable goods are goods that last for a relatively long time, such as refrigerators and cars.
- Nondurable goods last for a short period of time like food and paperback books.

- A refrigerator is a durable good.
- It lasts a long time.





- Food is a nondurable good.
- It does not last a long time.



- Just like going for your yearly physical allows you to track your health and prevent more serious problems from occurring, GDP tracks the economy's health.

Questions for Reflection:

- What did economists believe about the economy before the Great Depression?
- What is Gross Domestic Product or GDP and why is it important?
- Why do economists adjust GDP for inflation and what is this adjusted GDP called?
- What is the primary difference between durable and nondurable goods?