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# **Welcome back to Economics Club!**

**1/20/2021 General Meeting**

# T-Shirt (Back) Ideas

- If you have any ideas for the BACK of our t-shirt (related to economics), please message us through the Remind!
  - Quotes
  - Puns
  - Jokes
  - etc.

# Today's Agenda

- Gross Domestic Product (GDP)
  - What it is
  - What is counted
  - What is NOT counted
  - What GDP does NOT tell us
- Jeopardy!

# What is GDP?

- **Gross Domestic Product (GDP) IS THE**
- Dollar Value of all Final goods and services produced within a country in one year
  
- Measure of a nation's economic growth from one period to the next
- Most commonly calculated via expenditures (how much is spent on stuff)
  - $GDP = C + I + G + X_n$
- Other approaches:
  - value added
  - Income (how much is earned as income on resources used to make stuff)
  
- **WHY GDP?**
- Though it has limitations, GDP is a key tool to guide policymakers, investors, and businesses in strategic decision making.

# Nominal vs. Real GDP

- Nominal GDP
  - Not adjusted for inflation
  - The market value of the final production of goods and services within a country in a given period using that year's prices (also called "current prices")
- Real GDP
  - IS adjusted for inflation.
  - Nominal GDP adjusted for changes in the price level, using prices from a base year (constant prices) instead of "current prices" used in nominal GDP; real GDP adjusts the level of output for any price changes that may have occurred over time.

# What is counted in GDP? (4 components)

- There are 4 main parts of GDP : Consumer Spending (C), Investment Spending (I), Government Spending (G), and Net Exports (Nx or exports-imports).
- Consumer spending is the largest part of GDP, it includes everyday items like: cars, food, haircuts, gas, clothes, etc.
- **Consumption:** \$ amount of goods and services purchased by consumers.
  - Only counts goods purchased in the same year & within country borders.
  - Examples:
- **Investment:** Spending to increase productivity/output in an economy
  - Includes market value of the products that are built but not sold (these are called changes in business inventories).
  - Also includes final purchases of machinery, equipment, tools, etc.

# What is counted in GDP cont.

- Government spending includes:
  - Some examples: National defense and infrastructure
- Net Exports: Net exports (Nx) = Exports (X) - Imports (M):
  - Exports are something we sell to other countries and imports are something we buy from other countries. (ex. The U.S. might export oil to another country and import industrial machinery from another country)

## How to Calculate GDP

Consumer Spending (C) + Investment Spending (I) + Gov. Spending (G) + Net Exports (Nx = X-M)

# What is NOT counted in GDP?

- Intermediate goods
  - Tomatoes used in a pizza
- Used goods (second hand-sales)
  - A used car
- Unreported transactions
  - Tips for a server
- Illegal transactions
- Transfer payments
  - Welfare check
- Overseas production
  - US-owned firm in India
- Non-market transactions
  - Fixing your own roof
- Financial transactions
  - Buying stocks & bonds



# What GDP does NOT tell us (limitations)

- Does not measure non-monetary output or transactions (e.g. barter, household activities) - not all economic activity is counted
- Does not indicate whether the nation's rate of growth is sustainable or not
- Does not account for the costs imposed on human health and the environment of negative externalities arising from the production or consumption of the nation's output.
- Does not measure social well-being
- Does not take into account or represent the degree of income inequality in society

# What GDP does NOT tell us (limitations) cont.

- Remember PIES!
- P: Population.
  - This is why many economists use GDP per capita (GDP/population).
- I: Inequality
  - Even if 2 countries have identical GDP per capita, the population in those countries might not have identical standards of living. 99% of population -> poverty, 1% -> wealthy???
- E: Environment
  - GDP has no way of calculating pollution, the benefits of clean air, water, etc.
- S: Shadow Economy (informal sector)
  - Buying pie from Publix -> GDP; buying pie from friends who makes the pie themselves -> not counted in GDP.

# Jeopardy!

- <https://jeopardylabs.com/play/gdp-27>
- Winner will receive an extra membership point!
- Type your answers into the Teams chat; first person to get the question right gets the points.

Thank you for coming!

Questions?

Suggestions?

Comments?

Concerns?

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BE SURE TO JOIN OUR REMIND!!!  
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**NEXT MEETING: 2/3/2021 via Teams**