Name ________________________ Date ____________

Flocabulary

GDP

"A Healthy Economy"

Learn more about this topic! Each section gives more detail on one of the lyrics from the song. Read each section, and then respond by answering the question or taking notes on key ideas.

1. Gross Domestic Product (GDP) is a measure of economic activity. Specifically, it's the total value of all new goods and services produced in a country during a set period of time. Goods are objects that can be bought and sold, such as books and toys. Services are actions other people or businesses do for you, like cutting your hair or fixing your car. All goods and services have a price. These prices are added up when calculating GDP.

GDP is usually calculated every year or quarter of a year (three months). In the US, the Bureau of Economic Analysis calculates GDP every quarter and releases the data to the public.

Notes

2. The expenditure method is the most common way to calculate GDP. You add what consumers spend, what businesses spend, what the government spends and net exports. Net exports is exports minus imports. To find out America's net exports, you'd look at the difference between goods shipped from the US to other countries and goods shipped from other countries to the US.

The equation for calculating GDP with the expenditure method looks like this:

$Y = C + I + G + NX$

In this equation, Y stands for a nation's GDP, C is consumer spending, I is investments made by businesses, G is government spending and NX is net exports. A nation's GDP is usually measured in that nation's own currency. However, GDP amounts can be converted, or changed, into any currency using the exchange rate.

Notes

3. A nation's GDP can be used in many ways. Governments often consider GDP when deciding on new economic policies. When looked at it over time, GDP can show if an economy is experiencing growth (rising GDP) or contraction (falling GDP). An economic recession, indicated by a continuous fall in GDP, might be a sign that a country is in financial trouble. In contrast, a rising GDP over multiple quarters or years is a good thing for the government and country as a whole. Economic growth typically means low unemployment and higher wages, so everyday citizens are affected by rising or falling GDP, too.

Notes

4. GDP can be expressed in two ways: nominal and real. Nominal GDP is the sum of goods and services at current market prices. Inflation is the amount that prices increase over time. When looking at nominal GDP, inflation can make GDP today look larger. This is true even if GDP is actually decreasing when you account for inflation. As goods and services generally get more expensive over time, nominal GDP isn't as useful as real GDP, which is adjusted for inflation.

Real GDP uses a base year to establish a set price for all goods and services. The base-year prices are then applied to other years, so that GDP is always calculated with the same prices. Real GDP focuses on production volume. It looks at how many goods and services are produced instead of how much the goods and services cost. Real GDP makes it possible to compare the GDP of a nation from one year to the next without inflation interfering.

Notes

5. GDP per capita is the average wealth per person in a country. To calculate it, you divide the total GDP of a nation by its population. The result is how much wealth each person would get if the wealth were divided evenly.

In reality, wealth isn't divided evenly; one person might have $1 million, while 100 people have $10,000. Nonetheless, per capita GDP represents the average income or wealth of an individual in a country. This relates to standard of living. Standard of living is the level of wealth, comfort, material goods and necessities available to each person. Generally, the higher the GDP per capita, the higher the standard of living in a country. GDP per capita is closely tied to standard of living because it takes into account a nation's population. A country can have a large GDP but if it also has a large population, each person has a lower standard of living. Conversely, a country that has a moderate GDP with a smaller population can have a high individual income as shown by the GDP per capita.

Notes