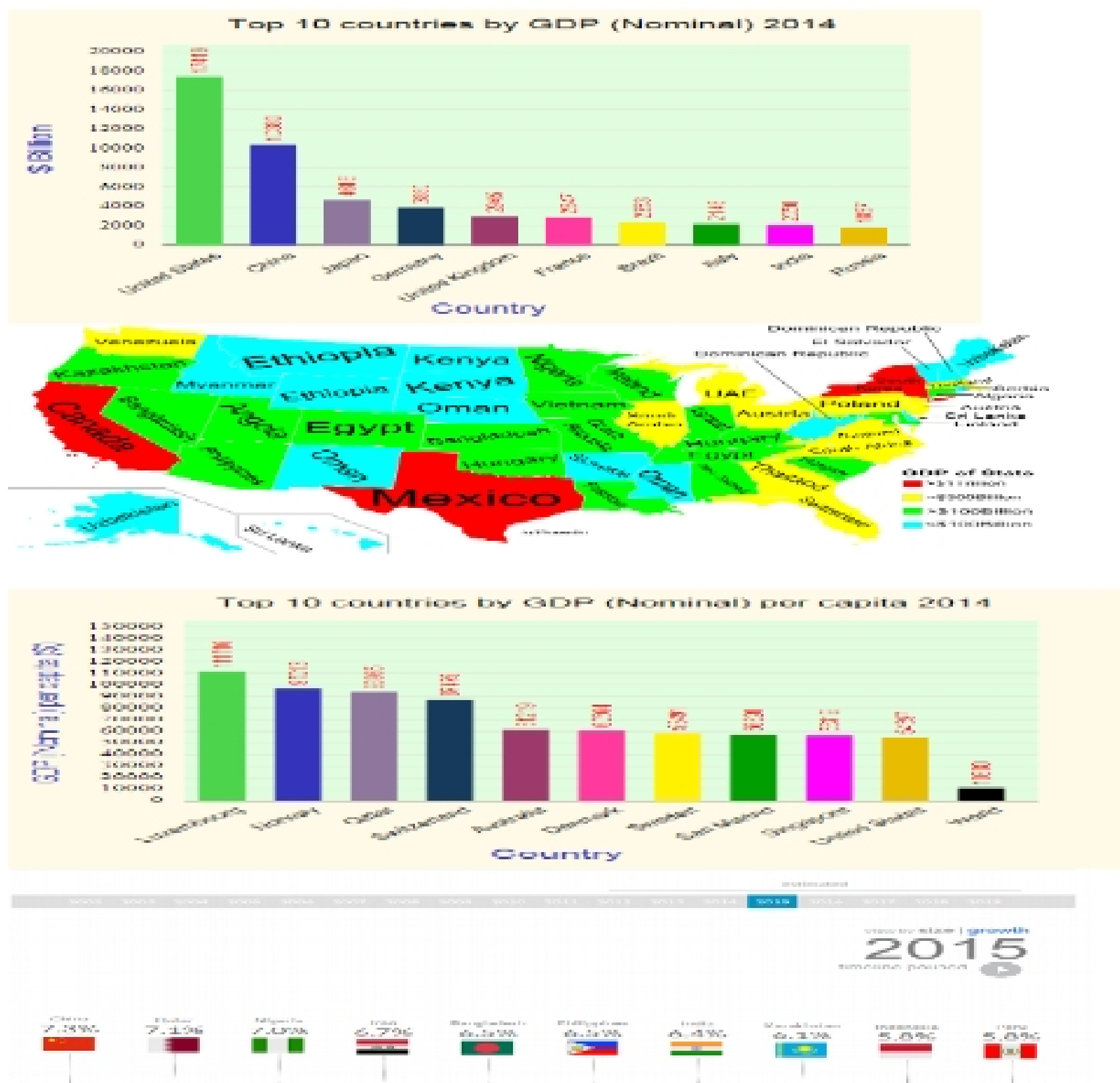


Chapter 4(8) – Measuring the Economy’s Performance

Level of GDP measures the **level** of economic activity.

GDP per capita = GDP/population measures **standard of living**

% measures **Economic Growth**

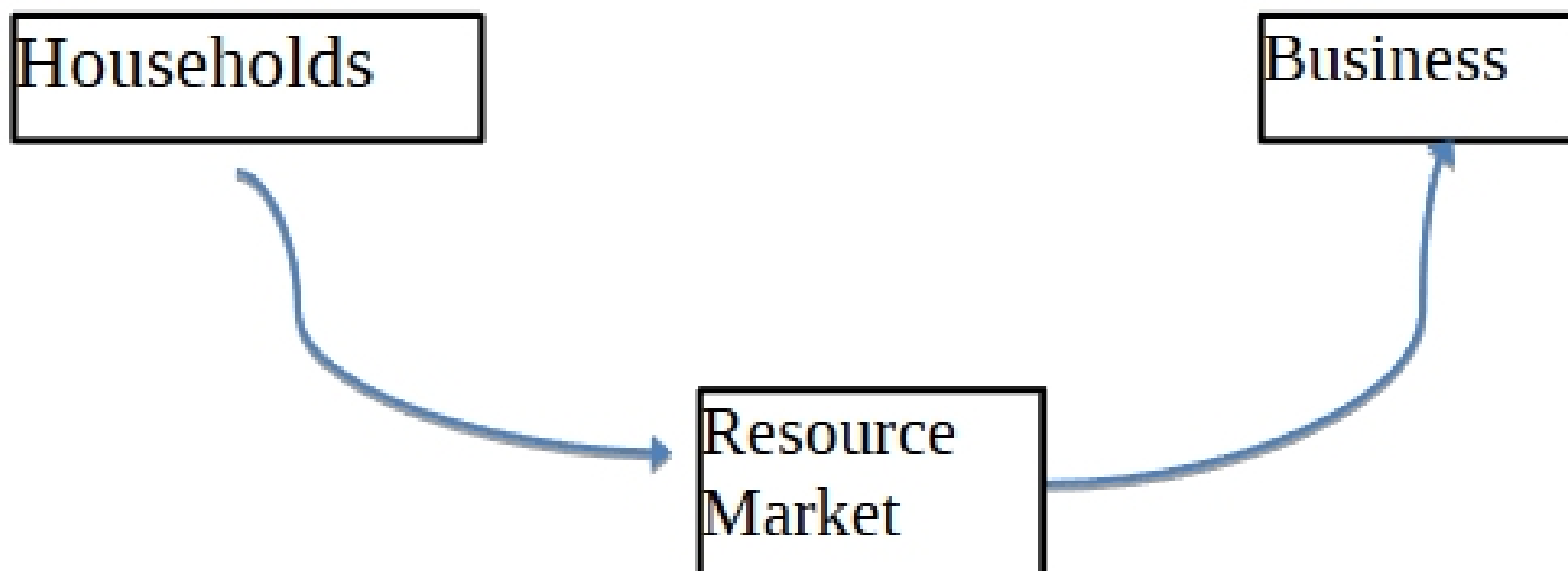


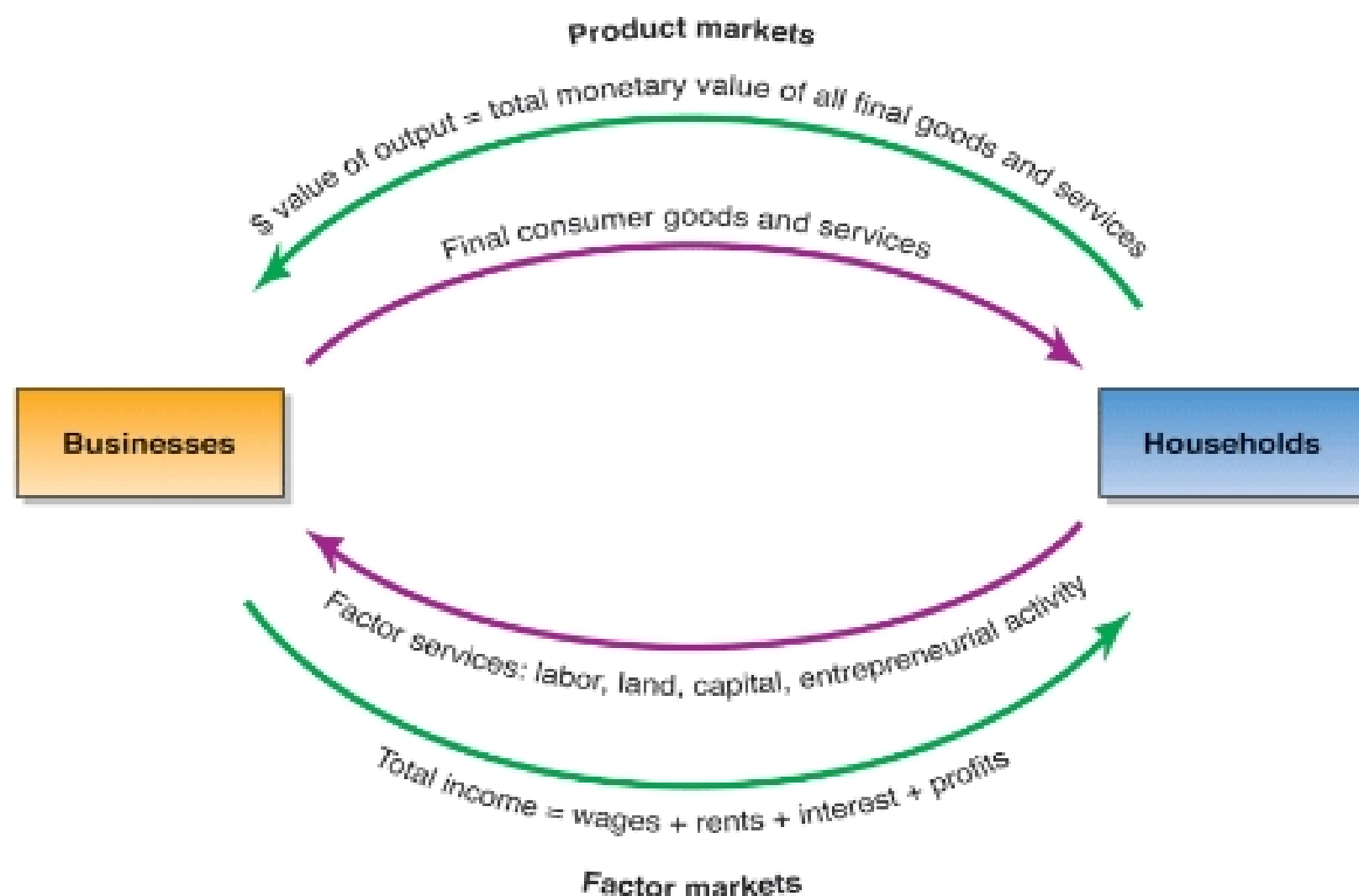
The Circular-Flow Diagram: a visual model of the economy.

Economy is the mechanism that distributes the scarce resources and goods & services.

The main way in which resources are distributed in the U.S. are through markets.
(assume no government initially)

- Two types of “actors”:
 1. Households own and sell resources
Buy _____
 2. business sell _____
Buy _____
- Two markets:
 1. Resource market
 - 2.





Since every dollar a buyer spends is a dollar of income for the seller this implies that:

**Total spending
income earned
By households on
households
Goods and Services**

**Total
by**

The value of the goods produced is called GDP, Thus GDP measures both

1. Spending on goods and Services
2. Income earned producing goods and services.