

Lecture 5 GDP (2)

Loose ends

- Things only economists say
- Intermediate vs. final goods

The pieces of GDP

Real vs. nominal GDP

Shortcomings of GDP

Loose ends

New Feature

Things only economists say!

“The world will never run out of oil”: why? b/c eventually cost of finding oil is too much and many people just quit. people substitute it for something else.

Four pieces of GDP

Consumption (C): Private spending on goods and services not intended for use in future production.

2011 Consumption: in billions: \$10, 729j 71%

Investment (I): Private spending on tools, plant, and equipment used to produce future output.

Investment \$1,855 12%

Consumption + Investment: Private

Government (G): Spending by all levels of government on final goods and services.

Government: \$3, 060 20%

Net Exports (NX): Exports minus imports -4%

Net Exports: -\$568

Growth rate

Growth rate of X= $\% \Delta X = \text{change in X} / \text{Starting X}$

Example:

GDP at the end of 2010=14, 499

GDP at the end of 2011=15, 076

GDP growth for 2011= $(15076-14499)/14499=3.98\%$

Real versus nominal GDP

Recall:

GDP is market values

$GDP = \sum (pxq)$

Nominal GDP: GDP in current dollars.

Raw GDP data, unadjusted for price changes.

Real GDP: GDP adjusted for changes in the overall price level

GDP in constant dollars

Notation:

Y=real GDP

p=price level

PY=nominal GDP

Base year: 2005

Computing real GDP

Two Steps

1. Divide to filter out old prices
2. Multiply to put in new

For 2011:

Real GDP= $15, 076/113.4 \times 100$

compute gdp growth rate:

$14,499/111 \times 113.4 = 14, 812$

$(15,076 - 14,812) / 14,812$

Recession: short run economic downturn