2.1 GDP & The Business Cycle

**Objective:**

* Define GDP by expenditure and income approaches.
* Distinguish between and be able to calculate nominal GDP and real GDP.
* Explain the limitations of GDP measures.
* Draw/label and explain how the business cycle is used to measure growth.

|  |  |
| --- | --- |
| 1.
2.
3.
 | Broad Economic Goals of the U.S.  |
| Definition:  | Gross Domestic Product |
| Finals goods are: Intermediate Goods are: Why would we count final but not intermediate goods in GDP?  | Final Goods vs. Intermediate Goods |
|  Income approach Expenditure ApproachMeasured by (Formula): Measured by(Formula): | Measuring GDP |
|  | C |
|  | I |
|  | G |
|  | NX |
| Why are financial transactions and re-sales not included?  | Production vs. Financial Transactions |
| Nonmarket ActivitiesUnderground EconomyNegative ExternalitiesQuality of Life | Limitations of GDP |
|  | Video: Real GDP & the GDP Deflator |
| Definition:Example - Switzerland 2009 (simple)Product Q $ Total ValueCheeseChocolateWatchesSwitzerland 2010Product Q $ Total ValueCheeseChocolateWatches | Nominal GDP |
|  | Problem??? |
| DefinitionExample - Switzerland 2010 RealProduct Q $ Total ValueCheeseChocolateWatches | Real GDP |
| Explain the difference:  | Real GDP vs. Nominal GDP -  |
| Definition and formulate | GDP Deflator |
| **In class we will take notes on the derivatives of GDP. If you are absent that day refer to the chart in the 2.1 Ppt.**  |  |
| DefinitionDraw and label:  | Business Cycle  |
| Explain the difference between a recession and a depression:  | Expansion |
|  | Contraction |
| List and explain how each contributes to this cyclical pattern. 1.
2.
3.
 | What causes this cycle?  |