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.

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|  | 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 Approach  Measured 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 Activities  Underground Economy  Negative Externalities  Quality of Life | Limitations of GDP |
|  | Video: Real GDP & the GDP Deflator |
| Definition:  Example - Switzerland 2009 (simple)  Product Q $ Total Value  Cheese  Chocolate  Watches  Switzerland 2010  Product Q $ Total Value  Cheese  Chocolate  Watches | Nominal GDP |
|  | Problem??? |
| Definition  Example - Switzerland 2010 Real  Product Q $ Total Value  Cheese  Chocolate  Watches | 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.** |  |
| Definition  Draw 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. | What causes this cycle? |