

What is GDP?

Worksheet

GDP is calculated using the expenditure approach as $GDP = C + I + G + (X - M)$, where C is consumption, I is investment, G is government spending, and (X - M) is net exports.

Questions

1. Which formula correctly calculates GDP using the expenditure approach?

- A) $GDP = C - I - G$
- B) $GDP = C + I + G + (X - M)$
- C) $GDP = C + I + G$
- D) $GDP = C + I - G + M$

2. If imports exceed exports, net exports are:

- A) Positive
- B) Negative
- C) Zero
- D) Undefined

3. Real GDP differs from nominal GDP because it:

- A) Excludes government spending
- B) Adjusts for inflation
- C) Only counts exports
- D) Ignores investment

4. Which of these counts toward GDP?

- A) Selling a 5-year-old used car
- B) A new car built and sold this year
- C) Buying stock on the stock market
- D) A cash gift between friends

5. An economy has $C = \$6,000B$, $I = \$1,500B$, $G = \$2,000B$, $X = \$900B$, $M = \$800B$. Find GDP.

6. A small country has $C = \$400B$, $I = \$100B$, $G = \$150B$, exports \$50B, imports \$90B. Find GDP.

7. GDP was \$20,000B last year and grew 3% this year. Find this year's GDP.

8. Define: What does GDP measure?

9. Define: What is the expenditure formula for GDP?

10. Define: What's the difference between nominal and real GDP?

Answer Key

1. B) $GDP = C + I + G + (X - M)$ - The expenditure approach sums consumption, investment, government spending, and net exports.
2. B) Negative - Net exports = $X - M$; if $M > X$, the result is negative.
3. B) Adjusts for inflation - Real GDP removes the effect of price changes to show true output growth.
4. B) A new car built and sold this year - Only newly produced final goods and services in the current period count toward GDP.
5. Net exports = $X - M = 900 - 800 = \$100B$
 $GDP = C + I + G + (X - M) = 6000 + 1500 + 2000 + 100$
 $GDP = \$9,600B$
6. Net exports = $50 - 90 = -\$40B$
 $GDP = 400 + 100 + 150 + (-40)$
 $GDP = \$610B$
7. Growth amount = $20000 \times 0.03 = \$600B$
This year's GDP = $20000 + 600 = \$20,600B$
8. The total monetary value of all final goods and services produced within a country in a given period.
9. $GDP = C + I + G + (X - M)$.
10. Nominal GDP uses current prices; real GDP adjusts for inflation to reflect true output changes.

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