

Learning Objectives

Chapter 23

In this chapter you will

- Consider why an economy's total income equals its total expenditure
- Learn how gross domestic product (GDP) is defined and calculated
- See the breakdown of GDP into its four major components
- Learn the distinction between real GDP and nominal GDP
- Learn how the GDP deflator can be used as a way of measuring the price level
- Assess whether GDP is a good measure of economic well-being

You should be able to

- Demonstrate why income equals expenditure equals output
- Explain the key words and phrases in the definition of GDP
- Define consumption, investment, government purchases, and net exports
- Calculate real and nominal GDP using base year and current year prices
- Calculate the GDP deflator using a relevant set of data
- List a number of welfare-enhancing activities that are not captured by GDP

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