

AP Macroeconomics
Unit 2, Objectives 2-4
Gross Domestic Product (Chapter 23)

Directions: Answer the questions below in your notebook.

1. Explain why each of the following transactions is either included or excluded in calculating GDP.
 - a) A mechanic fixes his own car.
 - b) A barber earns income for cutting hair.
 - c) A retired person receives a Social Security check.
 - d) A car manufacturer buys tires for its cars.
 - e) A family buys a new refrigerator.

2. What components of GDP (if any) would each of the following transactions affect? Explain.
 - a) You pay \$300 a month to rent an apartment.
 - b) A neighbor buys a new Toyota that was made in Japan.
 - c) A family pays \$150,000 for a house built three years ago.
 - d) A stockbroker is paid commissions on a large purchase.
 - e) A student receives a government scholarship check.

3. Copy and complete the table below, using 2012 as a base year.

Year	Price of Peas	Quantity of Peas	Price of Carrots	Quantity of Carrots	Nominal GDP	Real GDP
2012	\$1	100	\$1	200		
2013	\$1.50	200	\$2	250		
2014	\$2	250	\$2	300		

- a) Explain why the real and nominal GDP are the same in 2012. Why is nominal so much greater in 2014?

- b) Calculate the GDP deflator for each year. What is the rate of inflation for 2013 and 2014?