

Kentucky Class Notes

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**ECO 202 Gillette
Fall 2010
Test 1**

ECO202 CPA 1

Tuesday, August 31

Read in the Hubbard/O'Brien text Ch. 7.

1. a. Define gross domestic product (GDP).

GROSS DOMESTIC PRODUCT is the market value of all final goods & services produced in a country during a period of time, typically one year. It is also referred to as 'total production'.

b. Why is market value used instead of quantities?

The market value is used to measure GDP instead of quantities because all goods & services can't be added together to give the 'production' its name because together they mean nothing. The value, in dollars, of all goods & services is used to measure production.

2. Why does the value of total production in the economy equal the value of total income? Explain simply & use the example in the text of the Apple iPod.

GDP = total production = total income.

The total price paid for a good or service is divided up between the manufacturing company, the retail store, the workers' compensations, etc, as the total income. For a \$250 Apple iPod, the whole of the total price does not only go to Apple, or to Best Buy. It is split between the many people's income. The value of every good and service sold must equal exactly to the value of the income. If the value of all goods and services are added, the total that is sold is the same as the total that is gained as income.

3. List the four components of GDP and define each component. Referring to Figure 7.2, what percentage was each one of the four components of 2008 GDP?