

CHAPTER
12

CHAPTER OUTLINE

Gross Domestic Product and Growth

2

Directions: Fill in the outline below. Filling in the blanks will help you as you read and study Chapter 12.

I. Section 1: Gross Domestic Product

A. Defining Gross Domestic Product

1. Gross domestic product (GDP) is the _____ of all final goods and services produced in a country in a given year.
2. Gross domestic product may be calculated using the _____ approach or the _____ approach.
3. Nominal GDP is measured in _____ prices. Real GDP is measured in _____ prices.

B. Limitations of GDP

1. GDP does not include _____ goods and services or _____ business for which there is no record.
2. GDP does not measure people's health and _____.

C. Factors That Make GDP Go Up or Down

1. The two main factors that affect GDP are _____ supply and _____ demand.
2. As the price level rises, real GDP _____. As the price level falls, real GDP _____.

D. Other Measures of Output and Income

1. GDP is used to determine gross _____ product, _____ national product, national _____, _____ income, and _____ personal income.

CHAPTER OUTLINE (continued)

Gross Domestic Product and Growth

2

II. Section 2: Business Cycles

A. Stages of the Business Cycle

1. The four stages of the business cycle are expansion, _____, _____, and trough.
2. _____, _____, and _____ are three kinds of contractions.

B. Factors That Drive the Business Cycle

1. The four main factors that keep the business cycle going are business _____, interest rates and _____, consumer _____, and _____ shocks.
2. Leading _____ are variables that help economists predict business cycles.

III. Section 3: Economic Growth

A. Measuring Economic Growth

1. Real GDP per capita is real GDP divided by _____.
2. The basic measure of economic growth is the percentage of change in _____ over a period of time.

B. Capital Deepening

1. Capital deepening is the process of _____ the amount of capital per _____.
2. Saving, _____, and _____ all affect capital deepening and economic growth.

CHAPTER
12

VOCABULARY

Gross Domestic Product and Growth

2

A. Matching

Directions: Match the definitions in Column I with the terms in Column II. Write the letter of the correct answer in the blank.

Column I

- _____ 1. products used to make final goods
- _____ 2. GDP measured in unchanging prices
- _____ 3. a period of falling real GDP
- _____ 4. GDP measured in current prices
- _____ 5. goods that last a short time
- _____ 6. falling real GDP and rising prices
- _____ 7. a period of rising real GDP

Column II

- a. contraction
- b. expansion
- c. intermediate goods
- d. nominal GDP
- e. nondurable goods
- f. real GDP
- g. stagflation

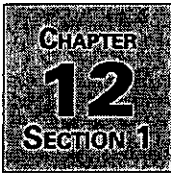
B. Writing Sentences

Directions: Use each of the following terms in a complete sentence. Write sentences that show your understanding of the terms.

8. depreciation _____

9. leading indicators _____

10. depression _____



STUDENT ACTIVITY

What Counts for GDP?

3

Read each scenario and decide which goods and services would be counted toward GDP for 2007 in the United States using the expenditure approach. Then answer the questions.

In 2007, Michael set up his own lawn care business. He purchased a lawn mower made in Missouri, a hedge trimmer made in Georgia, and hand tools made in China. All were made in 2007. Michael mows the family lawn, but isn't paid for it. Every week, Michael buys gasoline for his equipment. When he has a lot of business, he hires his friend Jake to help. In 2008, Michael closes his business and goes back to college. He sells his lawn mower to another landscaper and gives his other tools to his father.

Which of these goods and services would be included in U.S. GDP for 2007? Explain.

1. Lawn mower and trimmer Michael buys when he starts the business _____

2. Hand tools _____

3. Jake's services _____

4. The lawn care he provides at his father's house _____

5. The lawn mower when he sells it to another landscaper _____

Ana Maria began a greeting card company in 2007. She produces greeting cards for businesses. The year she started, she purchased all the necessary art supplies and special papers used in producing her cards. The supplies and papers were all made in the United States in 2007. She bought used desks and chairs that were made in Tennessee in 2007 and new bookcases that were made in Canada. She also paid a local advertising company \$10,000 to create ads and promote her company in business magazines. At the end of the year, she had \$420 worth of cards still in inventory.

Which items would be counted in determining U.S. GDP for 2007? Explain your answer.

6. The greeting cards Ana sells in 2007 _____

7. The desks and chairs _____

8. The bookcases _____

9. The advertising Ana purchases _____

10. Her inventory of remaining cards _____

CHAPTER
12
SECTION 1

GUIDED READING AND REVIEW

Gross Domestic Product

3

As You Read

As you read Section 1, answer the following questions about gross domestic product. Then apply your knowledge to the Guiding Question:



What does the GDP show about the nation's economy?

1. What is the gross domestic product? _____

2. How is the expenditure approach used to calculate GDP? _____

3. How is the income approach used to calculate GDP? _____

4. What is the difference between nominal GDP and real GDP? _____

5. Describe four limitations of using GDP to measure economic growth. _____

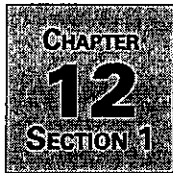
6. How is gross national product (GNP) derived from the gross domestic product?

7. How is GDP related to aggregate supply and aggregate demand? _____

Reviewing Key Terms

Match the terms with the descriptions. Write the letter of the correct answer in the blank provided.

- | | |
|---|-----------------------|
| _____ 8. goods used in the production of final goods | a. real GDP |
| _____ 9. goods that last a short period of time | b. nondurable goods |
| _____ 10. GDP expressed in constant prices | c. intermediate goods |
| _____ 11. loss of the value of capital equipment that results from normal wear and tear | d. depreciation |



QUIZ A

Gross Domestic Product

3

A. Key Terms and Concepts

Directions: Match the terms with the descriptions. Write the letter of the correct answer in the blank provided. Not all of the choices will be used.

- | | |
|---|---------------------------------|
| _____ 1. a system that collects macroeconomic statistics on production, income, investment, and savings | a. gross domestic product (GDP) |
| _____ 2. the dollar value of all final goods and services produced within a country in a given year | b. intermediate goods |
| _____ 3. consumer goods that last for a long time | c. price level |
| _____ 4. loss of value of capital equipment that results from normal wear and tear | d. durable goods |
| _____ 5. the average of all prices in the economy | e. national income accounting |
| _____ 6. products used in the production of final goods | f. depreciation |
| | g. nondurable goods |
| | h. aggregate demand |

B. Main Ideas

Directions: Write the letter of the correct answer in the blank provided.

- _____ 7. How do economists calculate GDP for one year using the expenditure approach?
- add together all the amounts spent on final goods and services
 - add up all the incomes received
 - add the amounts spent on goods and services to the incomes received
 - subtract the amounts received as income from the goods and services
- _____ 8. What is the difference between real GDP and nominal GDP?
- Real GDP is accurate to hundreds of dollars; nominal GDP is accurate to thousands of dollars.
 - Real GDP includes nonmarket activities; nominal GDP has no nonmarket activities.
 - Real GDP is based on constant prices; nominal GDP is based on the current year's prices.
 - Real GDP allows for depreciation; nominal GDP allows for no depreciation.
- _____ 9. Which of the following is a nondurable good?
- | | |
|--------------------|-------------|
| a. washing machine | c. bicycle |
| b. air conditioner | d. gasoline |
- _____ 10. What is the underground economy?
- the amount spent for environmental cleanup
 - the goods and services people make or do themselves
 - income that is not reported to the government
 - costs of vacations and sick pay

CHAPTER
12
SECTION 2

GUIDED READING AND REVIEW

Business Cycles

3

As You Read

As you read Section 2, fill in each item in the following diagram. Then apply your knowledge to the Guiding Question:

? What factors affect the phases of a business cycle?

BUSINESS CYCLE		
Phases	Contributing Factors	Leading Indicators
1. _____	5. _____	9. _____
2. _____	6. _____	10. _____
3. _____	7. _____	11. _____
4. _____	8. _____	

Reviewing Key Terms

Define the following terms.

- 12. expansion _____

- 13. economic growth _____

- 14. peak _____

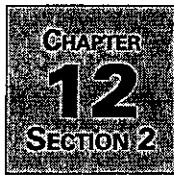
- 15. contraction _____

- 16. trough _____

- 17. recession _____

- 18. depression _____

- 19. stagflation _____



QUIZ A

Business Cycles

3

A. Key Terms and Concepts

Directions: Match the terms with the descriptions. Write the letter of the correct answer in the blank provided. Not all of the choices will be used.

- | | |
|--|-----------------------|
| _____ 1. a period of macroeconomic expansion followed by a period of contraction | a. peak |
| _____ 2. a steady, long-term increase in real GDP | b. economic growth |
| _____ 3. the lowest point in an economic contraction | c. recession |
| _____ 4. the highest point in an economic expansion | d. trough |
| _____ 5. an extended economic contraction | e. business cycle |
| _____ 6. a decline in real GDP combined with a rise in inflation | f. stagflation |
| | g. leading indicators |
| | h. contraction |

B. Main Ideas

Directions: Write the letter of the correct answer in the blank provided.

- _____ 7. What typically happens to consumer and business spending when interest rates go up?
- Both types of spending increase.
 - Consumer spending increases and business spending decreases.
 - Both types of spending decrease.
 - Business spending increases and consumer spending decreases.
- _____ 8. Which of the following helped the U.S. economy recover from the Great Depression?
- | | |
|-----------------|--------------------|
| a. World War I | c. the Korean War |
| b. World War II | d. the Vietnam War |
- _____ 9. Which of the following was a lasting effect on the U.S. economy after the 1970s OPEC oil embargo?
- | | |
|---------------------------|-----------------------------|
| a. higher gasoline prices | c. more fuel-efficient cars |
| b. lower interest rates | d. reduced taxes |
- _____ 10. What are the leading economic indicators supposed to predict?
- | | |
|--------------------|--------------------------|
| a. business cycles | c. consumer expectations |
| b. stagflation | d. nonmarket activities |

CHAPTER
12
SECTION 3

GUIDED READING AND REVIEW

Economic Growth

3

As You Read

As you read Section 3, fill in supporting facts or details under each main idea by answering each question. Then apply your knowledge to the Guiding Question:



How does the economy grow?

Main Idea: Capital deepening is an important source of growth in modern economies.

1. How does capital deepening increase output per worker? _____

2. How is human capital deepened? _____

Main Idea: The rate of saving and investment affects the economy.

3. What happens when saving rises? _____

4. How does increased investment help the economy? _____

Main Idea: Population, government, and trade all directly affect the economy.

5. What happens when population grows and capital remains constant? _____

6. How do government use of tax revenue for consumption spending and the importing of goods for short-term consumption affect economic growth? _____

Main Idea: Technological progress is a key source of economic growth.

7. How do economists measure the impact of technological progress on economic growth? _____

8. How does the government aid technological innovation? _____

Reviewing Key Terms

Complete each sentence by writing the correct term in the blank.

9. The proportion of income saved to disposable income is the _____.
10. Real GDP divided by the total population is called _____.
11. Increasing the amount of capital per worker is _____.

CHAPTER
12
SECTION 3

QUIZ A

Economic Growth

3

A. Key Terms and Concepts

Directions: Complete each statement with the correct term from this section.

1. Real GDP divided by the total population is _____.
2. Increasing the amount of capital per worker is _____.
3. An increase in efficiency gained from producing more output without using more inputs is _____.
4. Income not used for consumption is _____.
5. The proportion of disposable income saved is the _____.

B. Main Ideas

Directions: Write the letter of the correct answer in the blank provided.

- _____ 6. How can an economist compare the standard of living in two different countries?

a. by comparing real GDP per capita	c. by seeing how the GDP is distributed
b. by looking at the quality of life	d. by measuring physical capital
- _____ 7. How can a trade deficit increase the productivity of an economy?

a. by causing people to save	c. by promoting capital deepening
b. by building up a large amount of debt	d. by encouraging short-term spending
- _____ 8. If the government uses tax revenue to pay for long-term investments such as roads or other infrastructure, what happens to the economy?

a. Investment decreases.	c. Taxes increase.
b. Investment increases.	d. Taxes decrease.
- _____ 9. What is one way to measure technological progress?

a. increases in capital minus increases in labor
b. increases in labor minus increases in capital
c. total growth plus increase in capital and labor
d. total growth minus increases in capital and labor
- _____ 10. What is labor productivity?

a. the total number of workers in an economy
b. the amount of output produced per worker
c. the total amount of work produced in an economy
d. the average training per worker

Chapter 12 Measuring Economic Growth: (Old Black Book 13 and 14)

Business Cycle Notes SSEMA1e.

In the space below draw a **CORRECTLY LABELED** business cycle. Space also provided for extra notes.

Inflation Defined:

Recession Defined:

Depression Defined:

Based on the business cycle drawing, fill in the chart below.

POINT ON CYCLE	UNEMPLOYMENT	PRICES (Inflation)
Trough		Lowest
	Decreasing	
		Highest
Contraction	Increasing	

Based on our discussion, fill in the following table. For lines 2, 3, 4, and 5, use the words **HIGHEST, LOWEST, INCREASING, DECREASING.**

	PEAK	CONTRACTION	TROUGH	RECOVERY/Exp.
1. Description				
2. GDP is...				
3. Inflation...				
4. Unemployment is...				
5. Spending (consumption) is...				

Causes of the Business Cycle

A. Capital expenditures During an expansion, businesses invest heavily in new equipment and other capital goods. Later, businesses may cut back on the money they spend on capital. When businesses reduce investment, capital goods industries are hurt.

B. Inventory adjustments A business may build up its inventory (the goods it sells) when an expansion begins. Similarly, a business may cut back its inventory if the economy slows. In either case, its investment spending varies, causing change in the GDP.

C. Innovation (developing new products or processes) A new product or process encourages other companies to copy it. That brings a short spurt of heavy investment. When it ends, activity slows.

D. Money policies of the Federal Reserve The Federal Reserve may lower or raise interest rates on the money it lends. The Federal Reserve does this to encourage or discourage borrowing and spending.

E. Outside events Major events that have nothing directly to do with the economy, such as wars or changing oil prices, cause business activity to go up and down.

Unemployment Notes Standard SSEMA1c.d.

Measuring/ Calculating the Unemployment Rate:

- # of people unemployed/#in the labor force x 100 (Labor force = unemployed + employed)
- NOT in labor force: full time students, retired, prisoners
- America is typically around 4.5% - 6%. Anything more is undesirable
- Ex. If the Labor Force is 400 and the unemployed 10 then $10 / 400 = .025 \times 100 = 2.5\%$ unemployment

Types of unemployment

Name	Frictional	Structural (worst)	Cyclical	Seasonal
Description				
Example				
Effect on Economy				

**Full employment does NOT mean everyone has a job. There will always be Frictional and Structural.*

**Problems with Unemployment Rate: does not include discouraged workers or underemployed.*

Real World Examples of Unemployment

After each sentence, write the type of unemployment each person is experiencing. (F, ST, C, SE)

- Clizzia works for a business that just laid off a large number of people due to the slumping economy. ____
- Anthony leaves his job as a stock broker to become a consultant to Fortune 500 Company, but they have not hired him yet. ____
- Kristie works as a camp counselor that only does summer camp and it is now November. ____
- Jessica is a skilled costume maker, but is laid off because her costumes aren't selling because of a slow Halloween season. ____
- In an Football-land the only jobs available are jobs on football teams. Unfortunately, Jeremy doesn't have enough skills to get a job so he is unemployed. ____

Chapter 12 blue book (Chapter 13 old black book)

Measuring Output or Productivity we use: GDP

Measuring National Income or \$\$\$ we use: GNP, NNP, NI, PI, DPI

What is Inflation's effect on GDP? Look at Price Index- Market Basket, CPI- 80,000, PPI- 3,000, Base Year.

Effects of Population- Census, every 10 years.

• **Importance of Economic Growth** (*page 365*)

1. Economic growth gives the United States many benefits.

A. Economic growth raises the overall *standard of living*. This provides people with goods and time for enjoyable leisure activities.

B. Economic growth enlarges the *tax base*, or the incomes and properties that may be taxed. A larger tax base lets government supply more public services and/or lower taxes.

C. Economic growth creates jobs and economic security for more people.

D. Economic growth in the United States can benefit the economies of other countries through increased trade. A successful, growing economy can be a role model for developing nations.

2. How might increased foreign trade be a "two-way street," benefiting economic growth in both the United States and its foreign trade partners?

• **Factors Influencing Economic Growth** (*page 366*)

1. Economic growth depends on the nature of the factors of production and how well they are used.

2. They are as follows:

A. **Land** The United States has abundant natural resources, such as forests, mines, and fertile land.

Many are *renewable resources*, which means that they can be regrown or replenished in some other way. Other resources, such as coal, are not renewable. Even renewable resources need to be used carefully.

B. **Capital** A growing supply of high-quality capital improves the *capital-to-labor ratio*, the stock of capital compared to the number of workers. A high ratio encourages economic growth. Consumer saving is one way to increase capital. In many poor countries,

however, saving is difficult, and there is low investment in capital goods.

C. Labor Economic growth requires a skilled, growing labor force. The labor force today is better educated than in 1970.

D. Entrepreneurs Economic growth also depends on entrepreneurs who are willing to take chances and introduce new ideas.

3. How might slow population growth affect the labor force?

• **Productivity and Growth** (page 368)

Productivity - the efficient use of the factors of production- is needed for economic growth. The official measure of productivity, is labor productivity.

Labor productivity is the ratio, or comparison, of output to the amount of work that was needed to produce the output. The ratio is calculated by dividing output by labor input. The higher this ratio, the greater the productivity. A decline in productivity hurts the whole economy. It leads to higher prices for domestic goods, increased foreign competition, and job losses. By contrast, growing productivity keeps prices of goods and services low. Productivity increased greatly from 1959 to 1973, then slowed. It increased again in 1996.

Computers have contributed to increasing productivity.

Economists measure economic performance through several mechanisms. Experts study income and outputs in the economy as well as the interactions between consumers, businesses, and governments. Then they use this information to evaluate current activity and predict the direction the economy may be headed. Measurements of the nation's income and production are gross domestic product (GDP), net domestic product, national income, personal income, and disposable personal income. Using the suggested list of topics below as a springboard, create a power point presentation about the current state of the economy.

- | | | |
|----------------------------|---------------------|----------------------|
| unemployment | consumer spending | manufacturing trends |
| stock market | consumer debt | innovations |
| international trade | price indices | GDP |
| GNP | Economic Sectors | Circular flow |
| Constructing a Price Index | major price indices | |

1. Students work in pairs. Choose themes from the list above or brainstorm other ideas for your presentation.
2. Students should gather information from the textbook, internet and/or outside sources about the theme the group has chosen. Students should organize their findings into an outline for their presentation. If suitable clip art is found it should be included in the presentation.
3. Groups will be required to give a brief presentation to the class on their findings. Be prepared to explain and answer questions on their presentation..

UNIT 4 SSEMA 1e. C12 NEW C14 old

Business Cycle Superheroes/Nemeses

Task: To highlight key elements of the business cycle through creation of a metaphorical superhero and his/her nemesis.

- Look at the information below for a traditional superhero. You will create a profile for your business cycle superhero using the same format.
- The expansion/recovery phase of the business cycle is the basis for your superhero and the contraction/recession phase will be the basis for your nemesis.
- With your group members, list characteristics of and factors contributing to an economic expansion. Repeat the same process for a contraction. Some elements for consideration include performance of key economic indicators during the phase, monetary/fiscal policy decisions affecting the phase, and changes in the aggregate demand or aggregate supply components that coincide with the phase.
- Using the characteristics and factors from your list, you must develop a profile for your hero and nemesis that follows the one for the traditional hero described below. The elements in your profile must illustrate key concepts associated with the phases. You should be able to explain all profile elements within the context of the business cycle. Profiles should be clever, humorous, and content-based.
- After creating the profiles for your hero and nemesis, you will illustrate your superhero on a large piece of paper.
- The illustrated superhero should be labeled with words and/or short phrases (like an anatomy diagram).

Sample Information for a Traditional Superhero:

Name: Superman

Powers: Strength, Flight, X-ray vision, etc.

Weakness: Kryptonite

Nemesis: Lex Luther

Alias: Clark Kent

Job: Reporter

Family: Adoptive parents

Hobbies: Reading

Love Interest: Lois Lane

Catchphrase: "Up, up and away!"

Costume: Blue tights, red cape

M.O.: Changes in a phone booth

History: Born on Krypton he was sent to Earth when his planet was destroyed. Our yellow sun is the source of his power.