

**Topic 1: GDP & the Circular Flow Model***Krugman Module: 10, 11***Objectives:**

1. State the purposes of national income accounting.
2. List the components of GDP in the output (expenditures) approach and in the income approach.
3. Compute GDP using either the expenditure or income approach when given national income data.
4. Differentiate between gross and net investment.
5. Explain why changes in inventories are investments.
6. Discuss the relationship between net investment and economic growth.
7. Be aware of the difference between NDP, NI, PI, and DI when given relevant data.
8. Describe the system represented by the circular flow in this chapter when given a copy of the diagram.
9. Calculate a GDP price index using simple hypothetical data.
10. Find real GDP by adjusting nominal GDP with use of a price index.
11. List seven shortcomings of GDP as an index of social welfare.
12. Explain what is meant by the underground economy and state its approximate size in the U.S. and how that compares to other nations.
13. Give an estimate of actual 2007 (or later) U.S. GDP in trillions of dollars and be able to rank U.S. relative to a few other countries.

**Key Terms:**

GDP	Final Goods	Intermediate Goods
Multiple (Double) Counting	Value Added	Expenditures Approach
Income Approach	$C+I+G+X_n=GDP$	Imports & Exports
Net & Gross	National Income (NI)	Personal Income (PI)
National Domestic Product (NDP)	Disposable Income (DI)	Circular Flow Model
Nominal GDP	Real GDP	Price Index
GDP Deflator		

**Key Conceptual Questions**

1. What is included in GDP? What is excluded? Why?
2. Given data, calculate GDP using the expenditures Approach.
3. Given data, calculate GDP using the income approach.
4. Given Data, calculate NI, PI, and DI.
5. Be able to identify the expenditures approach and the income approach on a circular flow model.
6. Given data, calculate real GDP for a given year.
7. What are the shortcomings of using GDP?