

## Section 1: Guided Reading and Review

# Gross Domestic Product

### A. As You Read

As you read Section 1, answer the following questions about gross domestic product.

1. What is the gross domestic product? the dollar value of all goods & services produced in a country for 1 year
2. How is the expenditure approach used to calculate it? Add up all 4 categories of final goods & services
3. How is the income approach used to calculate it? Adds up all the incomes in a country's economy
4. What is the difference between nominal GDP and real GDP? Nominal GDP is the current GDP, Real GDP uses constant or unchanged prices

Describe four limitations of using GDP to measure economic growth:

5. Nonmarket activities - doesn't measure goods/services people do for themselves
6. The Underground Economy - large amount of production never gets reported to the government
7. Negative externalities - unseen expenses from things that may happen (a natural disaster)
8. Quality of Life - GDP doesn't measure quality of life
9. How is the gross national product derived from the gross domestic product? \_\_\_\_\_  
GDP + income earned outside of US - income earned by foreign firms/ citizens in the US = Gross National Product
10. How is GDP related to aggregate supply and aggregate demand? \_\_\_\_\_  
Aggregate supply - total amount of goods/services in an economy at all possible price levels  
Aggregate demand - amount of goods/services purchased at all possible price levels

### B. Reviewing Key Terms

Match the descriptions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided. You will not use all the terms.

#### Column I

- H 11. a system that collects macroeconomic statistics on production, income, investment, and savings
- F 12. goods used in the production of final goods
- B 13. GDP measured in current prices
- D 14. goods that last a short period of time
- A 15. GDP expressed in constant, or unchanging, prices
- J 16. goods that last for a relatively long time
- G 17. loss of the value of capital equipment that results from normal wear and tear
- L 18. the total amount of goods and services in the economy available at all possible price levels
- E 19. the average of all prices in the economy
- K 20. the annual income earned by U.S.-owned firms and U.S. residents
- I 21. the dollar value of all final goods and services produced within a country's borders in a given year

#### Column II

- a. real GDP
- b. nominal GDP
- c. aggregate supply
- d. nondurable goods
- e. price level
- f. intermediate goods
- g. depreciation
- h. national income accounting
- i. gross domestic product
- j. durable goods
- k. gross national product
- l. aggregate demand

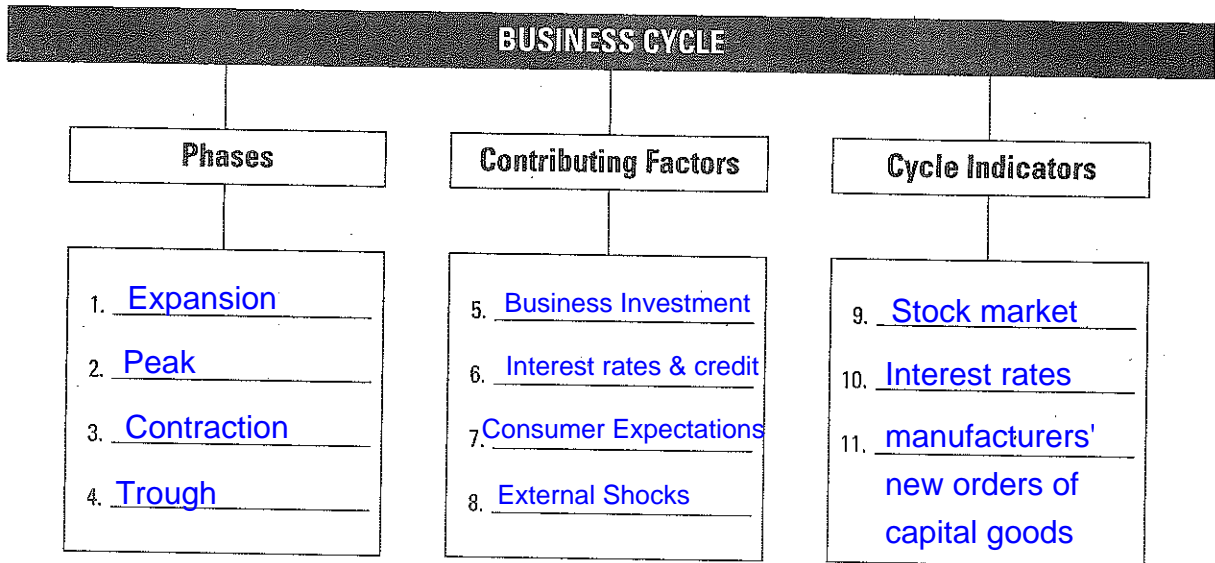
## Section 2: Guided Reading and Review

# Business Cycles



### A. As You Read

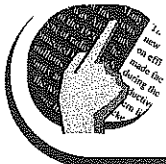
As you read Section 2, fill in each item in the following diagram.



### B. Reviewing Key Terms

Define the following terms.

12. business cycle a period of economic expansion followed by a time of contraction
13. expansion economic growth measured by a rise in real GDP
14. economic growth a long-term growth in real GDP
15. peak the highest point of the economic expansion, when real GDP stops going up
16. contraction period of economic decline - falling real GDP
17. trough low point in economic contraction, real GDP stops falling
18. recession a long period of economic contraction usually 6-18 months
19. depression a very long and serious recession period usually high unemployment
20. stagflation a decline in real GDP combined with a rise in price level
21. leading indicators key economic variables that economists use to predict a new phase of the business cycle



## Section 3: Guided Reading and Review

# Economic Growth

### A. As You Read

As you read Section 3, fill in supporting facts or details under each main idea by answering each question.

**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 taxation for consumption spending and importing 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? \_\_\_\_\_  
\_\_\_\_\_

### B. Reviewing Key Terms

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

9. \_\_\_\_\_ is the proportion of disposable income spent to income saved.
10. The real GDP divided by the total population is called \_\_\_\_\_.
11. Increasing the amount of capital per worker is \_\_\_\_\_.
12. Income not used for consumption is considered \_\_\_\_\_.
13. An increase in efficiency gained by producing more output without using more inputs is called \_\_\_\_\_.