

◆ GROSS DOMESTIC PRODUCT (GDP): EVERYTHING PLUS THE NEW KITCHEN SINK ◆ *(continued)*

On a personal level, what goods and services would you cut out if you suddenly had less income?

An economy that speeds up too much and triggers inflation can also affect you and your business. Why? An inflationary rise in prices is clearly bad news for you, the consumer. But it can also be harmful for you, the business person, since inflation boosts the prices of inputs, which raises your production costs.

Hence, either inflation or the opposite, a recession or depression, will affect you and your business. So you had best be prepared. The government's measure of GDP helps.

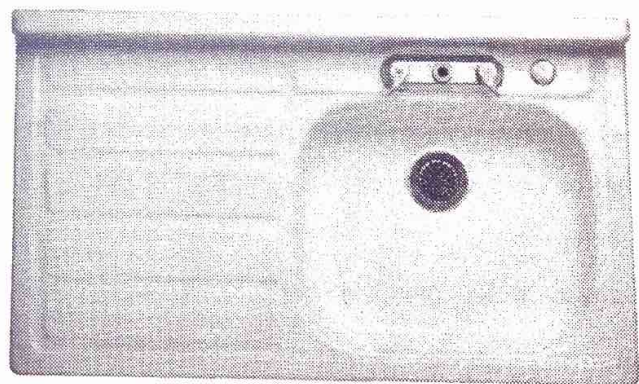
Beyond the Bottom Line

Here is a list of imaginary items. If they were real, which of them would be counted in 2007 calculations of GDP? Which would be counted in 2006 calculations of GDP? Which would not be counted in either year?

Now, designate the items as belonging to one of the five component groups: consumption (C), investment (I), government spending (G), exports (X), or imports (IM). Write the designation and the dollar amount in the appropriate column in the chart on page 62. Sum up GDP totals for both years. Then determine the state of the 2007 economy if GDP were based solely on these imaginary items.

- '06 Ford bought new in '06 for \$15,000 and resold as a used car in '07 for \$12,000.

- Government spent \$100 million on one B-1 bomber in '06 and \$63 million on some smaller planes in '07.
- Legal services billed and paid in '06: \$5,000.
- Legal services billed and paid in '07: \$10,000.
- Brand-new house bought in '06: \$150,000.
- Previously owned house bought in '07: \$175,000.
- Chrysler paid \$30 million for a new plant in '06 and \$8 million for new machinery in '07.
- U.S. imported \$100 million worth of autos in '06 and exported \$80 million worth of computers in '06.
- U.S. imported \$80 million worth of autos in '07 and exported \$100 million worth of computers in '07.
- Bay Jet-Skis produced and sold jet-skis worth \$1 million in '06; state of California spent \$500,000 in '07 to clean up waste in Santa Monica Bay caused by Bay Jet-Ski plant.
- Federal, state, and local governments spent \$20 million to repair damage from the '07 Johnstown flood.



(continued)

**◆ GROSS DOMESTIC PRODUCT (GDP):
EVERYTHING PLUS THE NEW KITCHEN SINK ◆ (continued)**

Item	2006 GDP		2007 GDP	
	Designation	\$ Amount	Designation	\$ Amount
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				
11.				
Totals: 2006 GDP _____			Totals: 2007 GDP _____	

What is the state of the 2007 economy: recession, depression, or inflationary?

Explain: _____

How much would the GDP have to rise or fall in 2007 before the U.S. economy could be called healthy?
In other words, calculate a new and improved 2007 GDP number _____.

(continued)