

Name: _____

Understanding Economic Measures

Part I: GDP

Using your textbook and the concepts covered in class, answer the following questions.

1. What does GDP measure?
2. What do economists count when computing GDP?
3. Why is GDP an important measure of our standard of living?
4. What does GDP not measure?
5. The economy of Shag Island produces only three goods: King Shag egg's, shag carpeting, and DVDs of the 1989 hilarious major motion picture *Shag* starring Bridget Fonda playing a teenybopper on a mad cap romp around Myrtle beach. Below is a chart showing the number and price of each good produced on Shag Island.

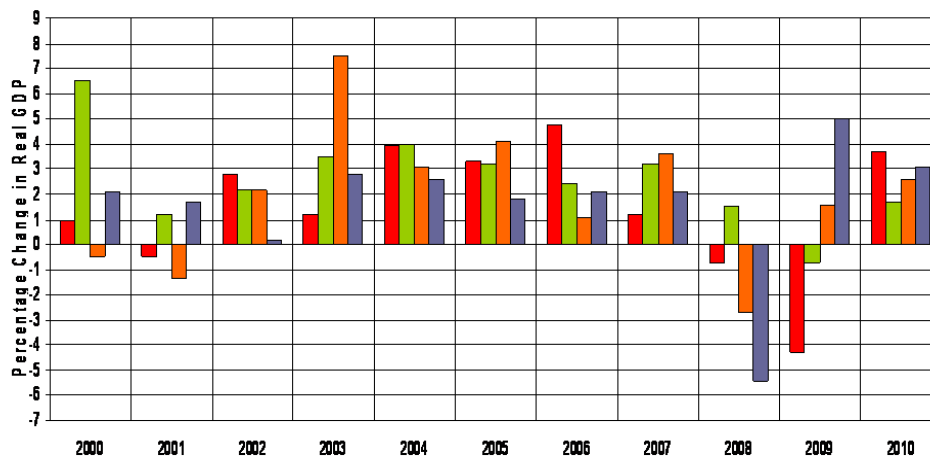
Good	Number Produced (2008)	Price(2008)	Number * Price
King Shag eggs	400	\$15 (they are a delicacy I have been told)	
Shag carpet	250	\$25	
DVD of <i>Shag</i>	8	\$2	

a. What is the GDP of Shag Island (Hint: Multiply the number of each good produced by its price, put that value in the third column, and then add the values together)?

b. Due to a new found popularity in the culture of the 70s and 80s during 2009, the production of shag carpet and DVDs **grows by 200 each** and the price **rises by \$10 a roll** for the carpeting and **25¢ for the DVDs**, what will be the new GDP for Shag Island?

Analyze the graph and answer the following questions.

**Figure 6: Quarterly Changes in U.S. Real GDP
(2000-2010)**



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6. What is measured on the X-axis of the graph above? Y-axis? Be specific.
7. Did the economy grow or shrink in 2005? 2008? 2010? How can you tell?
8. During what quarter of what year did the economy grow the most?
9. Based on the graph, what happened to the economy in third quarter of 2001? What event could explain this? What happened to the economy in 2008 – 2009? What events could explain this?
10. Overall, has the economy of the US grown or shrunk during the ten years shown on the graph? How can you tell?

Part II: Unemployment

1. Who is included in the civilian labor force? Who is not included?
2. Who is considered employed? Who is considered unemployed?
3. The population of Kazakhstan is 175 million and the labor force is 100 million. There are 15 million unemployed Kazakhstanis, 85 million employed, and 12 million adults that do not have a job and are not currently looking for one. What is the unemployment rate?

Part III: Inflation

Read “The Story of Inflation” comic book. While you read, answer the following questions.

1. What is the definition of inflation?
2. How does a rise in the “general price level” differ from the increase in the price of one good?
3. Why would the increase in the price of oil lead to inflation?
4. How is “cost-push inflation” different from “demand-pull inflation”?
5. What two groups of people are most hurt by inflation?
6. How does inflation affect business decision making?
7. What is “inflationary psychology”?
8. What two goods are excluded from “core” inflation?
9. What is one reason why inflation can occur?
10. What part of the government is responsible for trying to prevent inflation?