

## Module 11 Interpreting Real Gross Domestic Product

GDP only includes final goods/services but not intermediate goods/services.

### Final vs. Intermediate Goods/Services

-Hamburger buns bought by McDonald's Corp. for making Big Macs (Excluded from GDP, intermediate good)

-A used Economics textbook (Excluded from GDP, not a newly produced good)

-A new pair of Levi's jeans (Included in GDP, newly produced good)

-Newly purchased shares of Google stock (Excluded from GDP, not a good or service that is produced)

-A new PT Cruiser automobile (Included in GDP, newly produced good)

-A cup of coffee purchased at Starbucks (Included in GDP, newly produced good)

### Calculating Nominal and Real GDP

	2004	2005
Quantity of bread (billions)	5000	6000
Price of bread	\$2.50	\$2.25
Quantity of cake (billions)	1200	1150
Price of cake	\$4.00	\$3.80

Calculate the following:

1. Nominal GDP in 2004 and 2005
2. Real GDP in 2004 and 2005

Answers:

1. Nominal GDP in 2004= $(5000 \times \$2.50) + (1200 \times \$4.00) = \$17,300$  billion  
Nominal GDP in 2005= $(6000 \times \$2.25) + (1150 \times \$3.80) = \$17,870$  billion
2. Real GDP in 2004= $(5000 \times \$2.50) + (1200 \times \$4.00) = \$17,300$  billion  
Real GDP in 2005= $(6000 \times \$2.50) + (1150 \times \$4.00) = \$19,600$  billion