Lesson 4
GNP and GDP:
Two Vital Economic Statistics

Objectives

- To define and analyze Gross National Product (GNP)
- To define and analyze Gross Domestic Product (GDP)

Notes to the Teacher

Economists use many statistics to report the health of the economy. Two of the most widely-published statistics are Gross National Product and the more recently reported Gross Domestic Product. The GNP is the sum market value of all final goods and services produced in a year (GNP=consumption + investment + government spending + net exports). The Gross Domestic Product measures strictly the domestic output of the country (GDP=GNP - net factor income from abroad). The net factor includes income residents receive from abroad and income paid to citizens of other nations.

Students are asked to analyze the components of the GNP and GDP, as well as their role in the computation of these economic measures.

PREREQUISITE: Have students read textbook sections dealing with GNP and GDP.

TERMS: Gross Domestic Product (GDP), Gross National Product (GNP)

Procedure

1. Ask students what items should be included in calculating a total picture of the economic health of a nation. (*They should list the various components which make up the GNP and the GDP.*)

2. Distribute **Handout 5** and have students individually complete part A. Discuss their responses.
   Suggested Responses, Part A:
   1. *Part of GNP—a, c, e, h, i, j*
      Not Part of GNP—b, d, f, g

   2. *Exports*
   3. *Responses should include that it provides a picture of the economy that is not subject to international pressures.*
   4. Advantages—*picture more healthy, need to have an accurate picture of domestic economy*
      Disadvantages—*does not include international factor on domestic economy, economic picture not fully portrayed*

3. Assign part B of **Handout 5** as homework.

4. Begin the next class by pointing out to students that they have calculated their personal contribution to the GDP. (This assumes that none of them are engaged in a business and have no indirect taxes or capital consumption. Nor have they received income from a foreign country.)

5. Using these figures, have students pretend the class constitutes the entire United States' economy for the current and past year. Using these individual figures, calculate the class GDP for the past year and the projected one for the current year. Use the blackboard or overhead for this activity.

6. Conclude by assigning students to find current examples in newspapers and news magazines of updated information concerning the United States GNP and GDP. Share selected current articles and prepare a bulletin board display.

23

The Gross National Product and You

Part A.
Read the following and answer the questions.

"Isn't the gross national product what they pick up at the curb every Tuesday?"

Well, that "national product" may certainly be "gross," but, no, that's not what we're talking about here. Rather, we're talking about what is probably the most widely publicized of all economic statistics, the one that tells us the total dollar value of *all* goods and services produced in this country over an entire year. We're talking about the Gross National Product—the GNP.

Why do we need such a figure? Stop and think. At any one moment parts of our nation's economy are doing well and parts are not doing so well. If we looked only at the bad or the good we would have a very distorted picture of both the health and size of our economy. The GNP gives us a certain perspective, especially when compared to previous years' GNP, that would be difficult to get anywhere else. We can confirm general trends, measure total growth or decline and make broad predictions about the future of the economy as a whole. Using the GNP figures, governments can estimate future tax revenues and businesses can more intelligently predict demand for their products and services and invest accordingly. It is, in short, a most useful tool.

How is it calculated? There are two ways: the income approach and the expenditure approach. Under the income approach you add all wages, profits, rent, interest, indirect business taxes (business taxes not based on income— sales and property taxes, for example) and capital consumption (depreciation and obsolescence allowances). Under the expenditure approach you add government purchases, business investments, net foreign investment (exports minus imports) and personal consumption expenditures. A moment's reflection will tell you that since the dollar you "personally expend" for lodging is a dollar of "rent" for the landlord the two approaches are really just two sides of the same coin.

1. How do you fit into the GNP? Below is a list of several activities with which a person your age might be involved. Decide if it is measured in the GNP or not.

    a. Working at McDonald's

    b. Typing for the principal (unpaid)

    c. Baby-sitting regularly for a neighbor for pay

    d. Baking a cake for a school bake sale

    e. Working as a cashier at J.C. Penney Co.

    f. Volunteering at a hospital

    g. Fixing up a used car

    h. Buying a fish sandwich at Burger King

    i. Parents buying a car

    j. Purchasing a video tape of a movie

Another measure of the nation's economic health is the Gross Domestic Product (GDP). This reflects the total output of goods and services produced within the United States' borders. This measure is now more commonly used in reporting economic statistics than is GNP.

2. In calculating GDP versus GNP, what is now not counted?

3. Explain why GDP is now more commonly used in reporting economic statistics.

4. What are the advantages and disadvantages of using GDP over GNP?

    Advantages

    Disadvantages

Part B.
Calculate, as best as you can, the total wages, profits, interest, and rent you received for the past calendar year. Project the same figure for the current calendar year.