



Global Studies Unit 1, Lesson 4 **GDP and GNP**

Ms. Brinkman

Unit 1, Lesson 4: GDP and GNP

How do you know how an **INDIVIDUAL** is doing financially? You might ask to see records, such as:

bank statements
debts
assets
retirement savings
investments



Unit 1, Lesson 4: GDP and GNP

How do you know how an entire **COUNTRY** is doing financially? You'll need to see records concerning the country's:

Gross Domestic Product (GDP) and Gross National Product (GNP)

In this lesson, you'll know how to calculate a country's **GDP** and **GNP**, as well as what economic activities affect each.

Lesson 4: GDP and GNP Global Studies B Unit 1: Global Economy

Global Studies

Briefing



Your goals are to learn

- Define **Gross Domestic Product** and learn how to calculate both GDP and GDP per capita
- Identify the difference between GNP and GDP and the advantages to using each

Now that you've been introduced to some economic lingo, let's analyze two important concepts that measure an economy's success. Get ready for some alphabet soup!

Florida
VirtualSchool
Unless otherwise noted,
© 2004-2008 FLVS.



Unit 1, Lesson 4: GDP and GNP

Time to put your superior note-taking skills into action!

The Assignment tab will explain the definitions of GDP and GNP, as well as the factors that affect each.


Once you've completed your note-taking, click here to test your math skills!

Lesson 4: GDP and GNP
Global Studies B Unit 1: Global Economy

Global Studies

Assignment

GDP and GNP



Have you ever considered what type of job you would like to have after you finish your schooling? When you do, you'll probably want to get something that is both interesting to you and will support you. When you get a paycheck, we call that a salary, which is used to calculate your yearly income. Your income is the total value of the work you have done for a year, so to speak. It will influence how you live, what you can buy, and what you can save. Basically, it helps determine the **quality of life** you will have.

Countries of the world also have an "income" that determines the wealth of each nation and is a measure of the **quality of life** experienced by its people. It is known as Gross Domestic Product, or GDP.

Gross Domestic Product


GDP is defined as the total value of goods and services produced in a country within a given year.

This number can actually be computed three different ways.

- One way is using the flow of product approach which adds up all of the money spent by buyers of goods and services.
- Another method used by economists is the earnings and cost approach which adds up the money received by the producers of the goods and services.
- The third way is called the income approach. Just like it sounds, this involves adding up the total income of all the producers of goods and services. Essentially, all three systems give an equal picture of the economy of a country.

Per Capita GDP

Another number economists use to try to evaluate the economic success of a country is the Per Capita GDP. **When you divide GDP by the number of people living in the country, you get the Per Capita GDP.** It refers to the amount that each person would have available to them if the GDP were divided equally among everyone in the country. Sounds simple enough, right? Well, it's actually somewhat complicated because it assumes everyone in the country lives equally, which we all know is very rarely true.



Select the link below to learn more about GDP and Per Capita GDP. After you will be asked to answer questions about GDP and GDP per capita and how to calculate them.

[Gross Domestic Product](#)

Gross National Product

Another economic term that can be used to determine a country's economic success is GNP, or Gross National Product. This number differs from GDP because what is actually being counted is not the same. As mentioned before, GDP calculates the value of all goods and services produced in a country within a given year. **The GNP also does this but takes into account the value of goods and services produced by a country outside of its borders as well.** GNP may be higher or lower than GDP depending upon how many of its workers are outside the borders and how many foreign workers are inside the borders. The difference basically boils down to where the good was produced and who produced it. The chart below gives a picture of how GDP and GNP differ.

Characteristics	GDP	GNP
Definition	Total value of all goods and services produced in Country X within a given year	Total value of all goods and services produced in and outside Country X's borders within a given year
Who is producing goods?	Person residing within Country X, resident or non-resident	Citizen or business of Country X, living inside or outside the country
Where are goods being produced?	Inside Country X	Inside or Outside Country X
Activities that would increase each.	A foreign car company builds and sells cars within Country X A foreign resident travels to Country X to buy a computer built and sold in Country X A resident of Country X buys a dishwasher built in Country X by a foreign firm A foreign visitor buys dinner while on a visit to Country X.	A company from Country X opens a car manufacturing plant to build and sell cars in another country. A foreign resident travels to Country X to buy a computer built and sold in Country X. A foreign visitor buys dinner while on a visit to Country X.

Any economic activity that occurred within Country X affects both its GDP and GNP. The only activity that affected just the GNP was the opening of a car manufacturing plant in another country. The GDP doesn't take into account foreign dollars, and for this reason, it is not always the best method to determine success in countries with a large amount of foreign investment.

VirtualSchool Online resources noted. © 2009-2010 P.A.S.

2 of 4

Unit 1, Lesson 4: GDP and GNP

Global Studies

Gross Domestic Product

The total value of goods and services produced in a country in any given year is known as the country's **GDP**. This yearly total includes every shirt, lipstick, computer, backpack, french fry, Coke, and gallon of milk produced! It also includes the services performed by doctors, lawyers, teachers, football players, and store clerks who are paid to provide services to the people who use them. Added all together, the goods and services of a nation show us the state of their economy -- how much they make in a year. Think of it as the salary of the nation!



How is this figured?

This number is not easily calculated. Come on! Imagine counting every french fry that was eaten! It couldn't be done. Economists have come up with an easier method of calculating the GDP. They add up how much the goods and services are worth in dollar amounts. When they do this, they are using money as a **measure of value**. They are measuring the value of the good in dollars and adding it up. For example, if 10 million lipsticks are bought in one year at \$4 per lipstick, that would add \$40,000,000 to the Gross Domestic Product.

Double counting

When a product is made, the materials that are required to make it are also goods. Think about it like this: if your backpack has a plastic clip on it, the production of that clip cost money. When your backpack is sold, that cost money as well. If the money paid for both the clip and the backpack were figured in the GDP, then the value of the clip would be counted twice. This is a problem known as **double counting**. To avoid **double counting**, economists only count the value of the final product - this is known as **final goods and services**.

Two different approaches

There are two different ways economists can add up the total of the value of all goods and services. They can count ALL the money spent by the people who buy goods and services. This is known as the **flow of product approach**. The second way totals up the **money received** by the producers of goods and services and is known as the **earnings and cost approach**. Essentially, both numbers should be the same even though they look at the transactions from different sides.

However, if the **flow of product approach** is to be used, different types of spending must be accounted for. They are as follows:

Consumption -- the money that ordinary consumers spend (C)

Investment -- the money spent by businesses on equipment and materials (I)

Government -- any money spent by the government of a particular country (G)

Exports -- the money spent by foreigners on the country's goods and services (X)

Imports -- the money spent on foreign goods (M)

The statistic is achieved by the following equation: $GDP = C + I + G + (X - M)$

Let's try one!

If country Z has the following expenditures in billions, what is the GDP for the year?

C = 3,960, I = 667, G = 1,456, X = 994, and M = 885

Check answer

GDP PER CAPITA AND GDP PROBLEMS

The GDP per capita is the amount of money that would be available to everyone living in a country if the GDP were divided by the number of people in a nation. *Capita* means *head* in Latin. This is a means to figure out the general wealth of each person in a nation.

However, there are problems with this figure. Per capita GDP is just an estimate. Because it doesn't account for the fact that there are both rich and poor people in a nation or that wealth is very rarely evenly distributed, it is not a true picture of every person's lifestyle.

Also, there are some goods and services that are never counted. Illegal goods, homemade goods, the value of time that is not spent working, and any other labor done that is not paid for, are never counted. So the GDP does have a few problems. Still, it is a good place to begin looking at the economic state of a country when used in combination with other information.

Fire up that calculator!

This section will give you the formulas necessary to calculate GDP and GNP.

Don't forget to take notes!

Lesson 4: GDP and GNP

Global Studies B: Understanding Global Economy

Another method used by economists to measure the earnings and cost approach involves adding up the money received by the producers of the goods and services.

- The third way, called the income approach. Just like it sounds, this involves adding up the total income of all the producers of goods and services. Essentially, all three systems give an equal picture of the economy of a country.

Per Capita GDP

Another number economists use to try to evaluate the economic success of a country is the Per Capita GDP. **When you divide GDP by the number of people living in the country, you get the Per Capita GDP.** It refers to the amount that each person would have available to them if the GDP were divided equally among everyone in the country. Sounds simple enough, right? Well, it's actually somewhat complicated because it assumes everyone in the country lives equally, which we all know is very rarely true.



Select the link below to learn more about GDP and GNP. Later you will be asked to answer questions about GDP and GDP per capita and how to calculate both.

[Gross Domestic Product](#)

Gross National Product

Another economic term that can be used to determine a country's economic success is GNP, or Gross National Product. This number differs from GDP because what is actually being calculated is not the same. As mentioned before, GDP calculates the value of all goods and services produced in a country within a given year. **The GNP also does this but takes into account the value of goods and services produced by a country outside of its borders as well.** GNP may be higher or lower than GDP depending upon how many of its workers are outside the borders and how many services are inside the borders. The difference basically boils down to where the goods were produced and who produced it.

Up for a friendly game of Economic Concentration?



Economic Concentration!

materials and goods	produced inside and outside	capita	limitation of GDP
businesses	work done at home	consumpt	
head	money spent by buyers	exports	
bought by foreigners	consumers	investme	
using dollars to count totals	Produced within	GDP	

00:00 Time Taken 00 No. Of Attempts << Restart <> S

Click a term, followed by its definition to test your newfound knowledge from the lesson.

Once you've won the game, you'll see a famous national landmark. Do you know which one?

Lesson 4: GDP and GNP
Global Studies B Unit 1: Global Economy

Global Studies

Report

Connect this!

Now that you have learned about how economic activity is measured, try the matching game of **Economic Concentration**. Once you have revealed all of the matches, see if you can identify the famous landmark.



Submit Your Work

- When you are sure you have met the learning goals of this lesson, submit the **GDP and GNP** assessment on the following page.
- You will be answering questions based on the information presented in this lesson, as well as the activities on the assessment page you were asked to complete.

The Assessment

How well did you do at Economic Concentration?
Once you've studied, click the arrow to take the quiz at the end of the lesson.

The quiz includes 10 Matching, 6 Multiple Choice, and 1 essay question.

Lesson 4: GDP and GNP
Global Studies B Unit 1: Global Studies

Concentrate on this!

Now that you have learned about how economic activity is measured, try the matching game of [Economic Concentration](#). Once you have revealed all of the matches, see if you can identify the famous landmark.



Submit Your Work

- When you are sure you have met the learning goals of this lesson, submit the **GDP and GNP** assessment on the following page.
- You will be answering questions based on the information presented in this lesson, as well as the activities on the assessment page you were asked to complete.



[How will you be graded on this assessment?](#)

Are all necessary pages printed and placed in your notebook? Is all work saved on a floppy, zip disk, or CD?

Florida
VirtualSchool

Unless otherwise noted,
© 2004-2008 FLVS.



Contact Information

**Ms. Teneil Brinkman
Global Studies Instructor
Florida Virtual School**

**904-469-6786 office
904-716-6786 text only**

**Tutorial Website:
www.globalstudieshelp.weebly.com**

**Appointments:
<http://tiny.cc/brinkmanappt>**