Chapter 4- Spending, Income, and GDP

* **Gross domestic product (GDP) –** the market value of the final goods and services produced in a country during a given period
* **Market value-** the selling prices of goods and services in the open market
* **Final goods or services-** goods or services consumed by the ultimate user; because they are the end products of the production process, they are counted as part of GDP
* **Intermediate goods or services-** goods or services used up in the production of final goods and services and therefore not counted as part of GDP
* **Capital good-** a long-lived good that is used in the production of other goods and services
* **Value added-** for any firm, the market value of its product or service minus the cost of inputs purchased from other firms
* **Consumption expenditure (or consumption)-** spending by households on goods and services such as food, clothing, and entertainment
* **Investment-** spending by firms on final goods and services, primarily capital goods
* **Government purchases-** purchases by federal, state, and local governments of final goods and services; government purchases do not include transfer payments, which are payments made by the government in return for which no current goods or services are received, nor do they include interest paid on the government debt
* **Net exports-** exports minus imports
* **Real GDP-** a measure of GDP in which the quantities produced are valued at the prices in a base year rather than at current prices; real GDP measures the actual physical volume of production
* **Nominal GDP-** a measure of GDP in which the quantities produced are valued at current-year prices; nominal GDP measures the current dollar value of production

$$Y \left(GDP\right)=C+I+G+NX$$

$$Labor Force Participation Rate= \frac{actual labor force}{potential labor force}$$

where the actual labor force is the Employed + Unemployed and the potential labor force is the Employed + Unemployed + Working age population not in the labor force