

# Guided Reading Activity

## Evaluating the Economy

### Lesson 1 *Measuring the Nation's Output and Income*

#### Review Questions

**Directions:** Read each main idea and complete the statements below. Refer to your textbook as you write the answers.

#### A. GDP—The Measure of National Output

**Main Idea:** There are many ways to measure the value of all the goods and services produced by a country's economy. Knowing these measures helps people take actions to improve economic performance.

1. Gross \_\_\_\_\_ product, or GDP, is the dollar value of all final goods, \_\_\_\_\_, and structures produced within a \_\_\_\_\_ borders in a year.
2. To measure GDP, all we have to do is \_\_\_\_\_ the quantity of each final good or service produced in a year by its price, and then add up the results to get the total dollar value of production. Since it is not possible to record every single good, service, and structure produced, statisticians use \_\_\_\_\_ techniques to estimate.
3. Because GDP is a measure of final output, \_\_\_\_\_ products, or goods used to make other products, are \_\_\_\_\_.
4. \_\_\_\_\_ sales, or the sale of used goods, and \_\_\_\_\_ transactions, or economic transactions that do not generate expenditures in the market, are also excluded from GDP. Economic activities like gambling and smuggling are part of the \_\_\_\_\_ economy and are not counted in GDP.
5. \_\_\_\_\_ GDP is not adjusted for inflation, while \_\_\_\_\_ GDP is adjusted for inflation. Because of this, sometimes GDP looks like it is growing \_\_\_\_\_ than it is because inflation adds to the price of goods and services.

# Guided Reading Activity *cont.*

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6. While GDP is a useful measure of economic activity, it cannot tell us about \_\_\_\_\_ of output, the impact production may have on \_\_\_\_\_ of life, \_\_\_\_\_ activities, or \_\_\_\_\_ product quality.

### B. Measures of National Income

**Main Idea:** GDP is a measure not only of total production of goods and services, but also of income, because production generates jobs and income for individuals who then spend this money on goods and services.

1. GDP is like a two-sided coin; when business activity creates additional output, jobs and income are \_\_\_\_\_.
2. The gross \_\_\_\_\_ product measures the market value of goods and services produced by labor and \_\_\_\_\_ supplied by U.S. residents.
3. \_\_\_\_\_ national product is GNP less \_\_\_\_\_, which is also called capital consumption allowances.
4. \_\_\_\_\_ income is the income that is left over after all taxes except corporate profit taxes are \_\_\_\_\_ from the NNP.
5. \_\_\_\_\_ income is the amount of income going to consumers *before* income taxes are subtracted, while \_\_\_\_\_ income is the amount of income consumers have *after* income taxes.

### C. Economic Sectors and Circular Flows

**Main Idea:** The economy is made up of several sectors. These sectors receive various components of the national income, which they then use to purchase the total output.

1. The movement of income through the \_\_\_\_\_, investment, \_\_\_\_\_, and net foreign sectors is described as the \_\_\_\_\_ flow of economic activity.

# Guided Reading Activity *cont.*

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2. The \_\_\_\_\_ sector is the largest sector of the economy and consists of all the \_\_\_\_\_, or basic living units, in the nation. This sector receives its income in the form of \_\_\_\_\_ income.
3. The \_\_\_\_\_ sector is made up of businesses, such as sole proprietorships, partnerships, and \_\_\_\_\_ that are responsible for producing the nation's \_\_\_\_\_.
4. The \_\_\_\_\_ sector includes all local, state, and federal levels of government, and receives its income from \_\_\_\_\_.
5. The \_\_\_\_\_ sector includes all consumers and \_\_\_\_\_ outside the United States. This sector does not have a specific source of \_\_\_\_\_ but instead represents the difference between the dollar value of the goods \_\_\_\_\_ abroad and that of goods purchased from abroad.
6. The \_\_\_\_\_ - \_\_\_\_\_ model shows that GDP is equal to the sum of aggregate demand for output by all four sectors.

### Summary and Reflection

**Directions:** Summarize the main ideas of the lesson by responding to the statement below.

Describe in one paragraph how you currently contribute to the U.S.'s GDP. Use examples in your answer.

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