

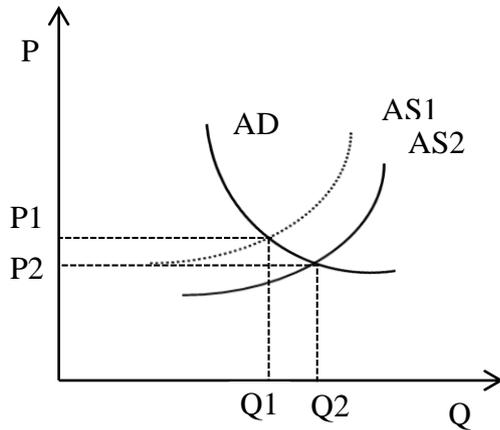
Answer on #46731, Economics - Macroeconomics

Assignment

There is an excellent crop this year due to unexpected weather conditions. Illustrate the changes that occur to the level of real GDP and the market equilibrium?

Solution

Weather conditions are important determinant of the supply of agricultural goods. Good weather increases crop and causes the rightward shift of the supply curve. We can illustrate the equilibrium graphically



So, the price for these goods will decrease to the P2 and the amount will increase to the Q2.

The gross domestic product is a national indicator that represents the total demand for a nation's goods and services over a given period. So, the level of real GDP will increase. We can write an equation

$$\text{Real GDP} = \sum P1 * Q2$$

So, the change in real GDP will be the following:

$$\text{Change in real GDP} = P1 * Q2 - P1 * Q1 = P1 (Q2 - Q1)$$