

Answer on Question#56093 - Economics - Macroeconomics

Question

1) The table below provides economic information of Republic of Eastein for 2014

Items Amount (\$):

Transfer Payments \$1,440

Interest Income \$2,900

Capital Consumption Allowance \$1,000

Wages \$3,200

Gross Investment \$3,470

Business Profits \$3,900

Indirect Business Taxes \$2,900

Rental Income \$2,400

Net Exports (Export - Import) \$1,120

Government Purchases \$4,410

Canadians and firms abroad \$1,400

Non Canadians and foreign firms in Canada \$700

Household Consumption \$7,300

a) Calculate Republic of Eastein's GDP for 2014 using the expenditure approach.

b) Calculate Republic of Eastein's GDP for 2014 using the income approach.

c) Calculate Gross National Product for 2014.

d) Determine the Net Domestic Product.

e) Determine the Net Investment.

f) Use the circular flow of money model to explain income approach and expenditure approach, and relate this to your answers in A and B above.

Answer

a) **GDP** = Household consumption + Gross Investment + Government Purchases + Net Exports =
= \$7,300 + \$3,470 + \$4,410 + \$1,120 = **\$16,300**

b) **GDP** = Interest Income + Wages + Business Profits + Rental Income + Indirect Business Taxes +
+ CCA = \$2,900 + \$3,200 + \$3,900 + \$2,400 + \$2,900 + \$1,000 = **\$16,300**

c) **GNP** = GDP + Canadians and firms abroad – Non Canadians and foreign firms in Canada =
= \$16,300 + \$1,400 - \$700 = **\$17,000**

d) **NDP** = GDP – CCA = \$16,300 - \$1,000 = **\$15,300**

e) **NI** = Gross Investment – CCA = \$3,470 - \$1,000 = **\$2,470**

f) The circular flow model shows that a national economy is a system. Production is counted in GDP in the year it is produced, regardless of when it is sold. If a sale takes place in a later year, the later year's GDP will only reflect the income earned at the time of the sale - not the full value of the good being sold. The value of used goods is not included, since it does not represent new production. The total economy can be measured as income, and it also can be measured as output.

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