PENANG SANGAM HIGH SCHOOL

P.O BOX 44, RAKIRAKI

LESSON NOTES – WEEK 8

Subject: Economics   **Year:** 11

Strand: 3   **Sub Strand:** 3.1- National Income

Content Learning Outcome: - Describe and calculate different concepts used in National Income.

Lesson Notes (copy content learning outcome and notes in your note book)

1. Nominal GDP **(GDP at current prices):**

   NOMINAL GDP: $\dfrac{\text{REAL GDP x PRICE INDEX}}{\text{BASE YEAR INDEX}}$

2. REAL GDP **(GDP at constant price):**

   REAL GDP: $\dfrac{\text{NOMINAL GDP x BASE YEAR INDEX}}{\text{PRICE INDEX}}$

3. REAL GDP per capita

   $\dfrac{\text{REAL GDP}}{\text{POPULATION}}$
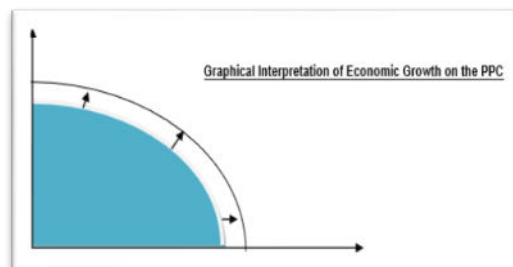
4. GDP per total spending in the economy
   It is the sum of all expenditures undertaken in the economy.

   GDP= C + I + G + NX   OR   C + I + G + (X-M)

   GDP= Consumption + Investment + Government + Net Exports

   Net Exports= Exports – Imports
   Graphical Interpretation of Economic Growth on the PPC

Graphical Interpretation of Economic Growth on the PPC

Example:

The following table shows the Gross Domestic Product (GDP) data for Robinson Crusoe economy. Use the data to answer questions (i) and (ii).

Year	Price Index	GDP at Current Price ($m)	GDP at Constant Price ($m)
2014	100	700	700
2015	276	1._____	1100
2016	300	3465	2._____

Base Year Index = 100

1. Year 2015: GDP at Current Price ⟵ Also known as Nominal GDP

Formula: $\dfrac{\text{Real GDP}}{\text{Base Year Index}}$ x Price Index = $\dfrac{1100}{100}$ x 276 = 3036

$3036m ✓

2. Year 2016: GDP at Constant Price ⟵ Also known as Real GDP

Formula: $\dfrac{\text{Nominal GDP}}{\text{Price Index}}$ x Base Year index = $\dfrac{3465}{300}$ x 100 = 1155

$1155m ✓

Assume this economy has a population of 400, 000. Calculate Real GDP per capita for the year 2015.

(ii) Real GDP Per Capita

Formula: $\dfrac{\text{Real GDP}}{\text{Population}}$ = $\dfrac{1100\ 000\ 000}{400\ 000}$ = 2750

$2750 per capita or per head/person

Activity

1. The following table shows Gross Domestic Product (GDP) for a hypothetical economy. Use this information and your knowledge to calculate the missing values.

YEAR	PRICE INDEX	NOMINAL INDEX	REAL GDP
1	100	800	(i) _____
2	260	(ii)_____	500
3	286	1716	(iii)_____
4	300	2046	(iv) _____
5	320	(v)_____	937.50

2. Assume this economy has a population of 1million [1,000 000]. Calculate Real GDP per capita for the Year 5.