

**PENANG SANGAM HIGH SCHOOL
P.O.BOX 44, RAKIRAKI**

LESSON NOTES

Subject: Economics

Year/Level: 12

Week 9

Strand	3	Macroeconomics
Sub Strand	3.1	National Income
Content Learning Outcome	Explore the Real GDP in the context of the Fiji economy..	

Greetings to all...

Hope you attempted the activity on National Income calculation. You can mark or work and do corrections after the discussion of the activity.

Firstly, Identify the components of GDP via Expenditure Approach.

Let's identify the components in the table.

	COMPONENTS	\$m
Exports of goods and services	X	50
Final consumption expenditure: government	G	35
Final consumption expenditure: private	C	55
Gross fixed capital formation	I	40
Taxes on production and imports	Indirect Taxes	30
Less imports on goods and services	M	55
Statistical discrepancy	SD	5
Change in inventories	I	10

Solutions

1. GDP is the total value of goods and services produced in an economy in a year.
2. Real GDP is a better measure of a country's growth compared to Nominal GDP because it gives more accurate reflection of output as it adjusts the changes in prices or accounts for inflation.
3. $GDP = C + I + G + (X - M) + SD$
 $= 55 + (40 + 10) + 35 + (50 - 55) + 5$
 $= \$140M$

Hope this activity enabled you in the application of the formula to calculate GDP.

Lesson Notes (Copy in your note book)

PRICE AND INFLATION

Because prices of goods and services rise and fall, we use price index to measure average prices. Price index is calculated as follows:

Commodity	Qty Bought	1990 (Base year)		1991 (current year)	
		Price	Expenditure	Price	Expenditure
6 packs of soft drinks	4	\$6	\$24.00	\$6.75	\$27
Video tapes	2	\$3	\$6.00	\$4.20	\$8.40
Total			\$30.00		\$35.40

$$\begin{aligned}
 \text{Price Index for 1991} &= \frac{\text{Expenditure Current Year}}{\text{Expenditure Base Year}} \times \frac{100}{1} \\
 &= \frac{35.40}{30.00} \times \frac{100}{1} \\
 &= 118
 \end{aligned}$$

$$\begin{aligned}
 \text{Inflation Rate} &= \frac{\text{CPI Current Year} - \text{CPI Base Year}}{\text{CPI base Year}} \times \frac{100}{1} \\
 &= \frac{118 - 100}{100} \times \frac{100}{1} \\
 &= 18\% \text{ increase in price.}
 \end{aligned}$$

We will look further in calculations in the next lesson

Stay Safe.....