



# AP Macro Topic 2.1

## The Circular Flow and GDP

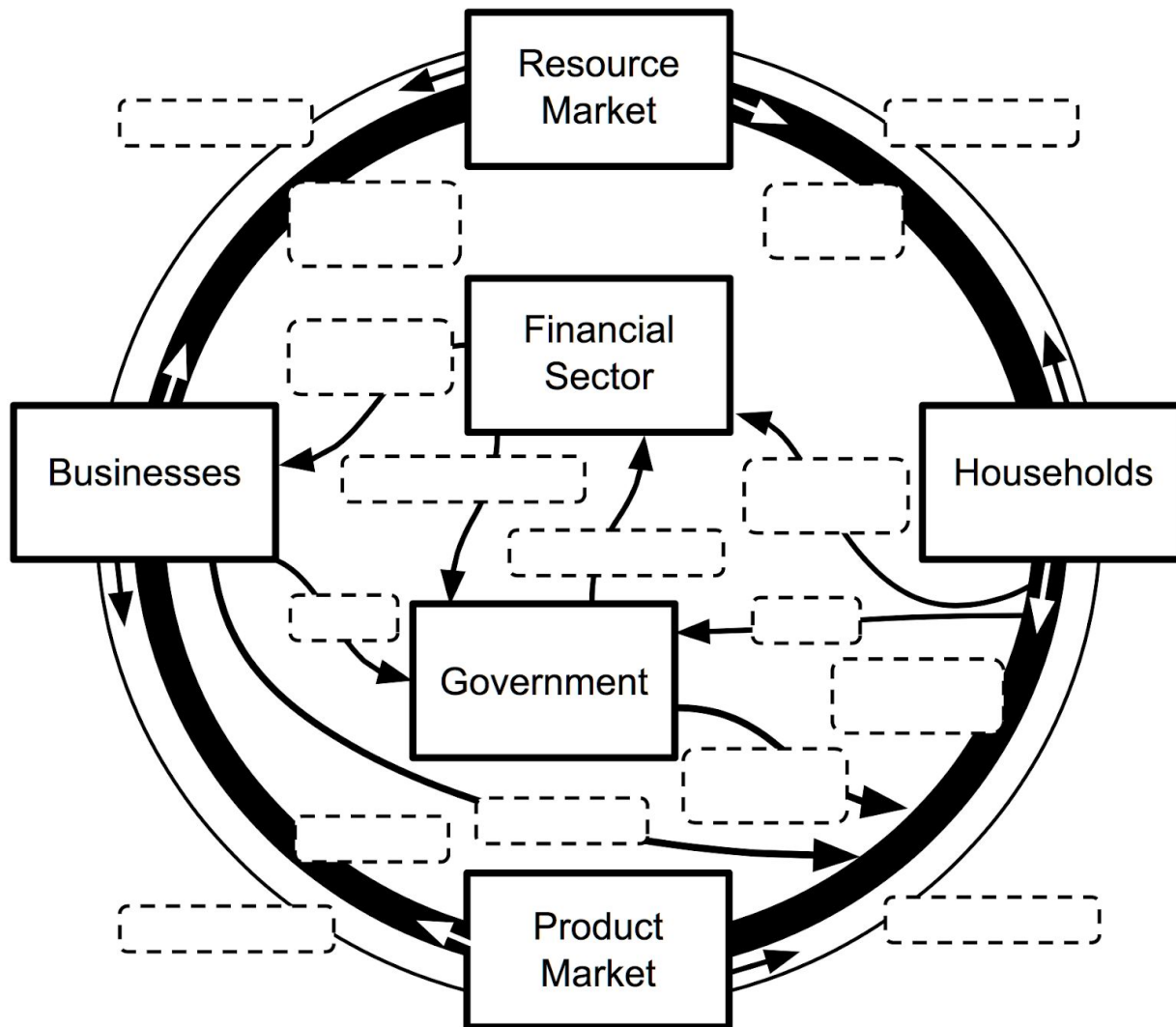
**Part 1: Check Your Understanding-** Use the word bank below to fill in the blanks on the circular flow diagram for a closed economy.

Consumption  
Government Spending  
Factor Payments

Goods/Services (2)  
Investment  
National Income

Private Borrowing  
Private Savings  
Public Borrowing  
Taxes (2)

Public Savings  
Resources (2)  
Revenue



1. What are the four components of GDP using the expenditure approach?
2. What are the four components of GDP using the income approach?
3. Explain why both the expenditure approach and income approach yield the same value of GDP.



## AP Macro Topic 2.1

# The Circular Flow and GDP

---

4. What are government transfer payments and why are they not included in the calculation of GDP?
5. Why are financial transactions not included in the calculation of GDP?

**Part 2: Practice-** Identify if each of the following is an example of consumer spending (C), investment spending (I), government spending (G), net exports (XN), or not counted in GDP (NC).

6. \_\_\_\_ A startup tech company buys new computers for its employees
7. \_\_\_\_ You purchase a candy bar
8. \_\_\_\_ The government issues a Social Security check to a retired real estate agent
9. \_\_\_\_ The Ford Motor Company buys windshields to put on new cars in production
10. \_\_\_\_ An American named Peter Parker buys a necklace in Italy
11. \_\_\_\_ The military purchases a new tank
12. \_\_\_\_ Your uncle pays a contractor \$600,000 to build a new house
13. \_\_\_\_ Ford builds 100 cars in the U.S. that are sold to people in Canada
14. \_\_\_\_ A motorcycle dealership has 10 brand new motorcycles that go unsold this year
15. \_\_\_\_ An attorney offers to help her friend file legal paperwork for free

**Part 3: Put It All Together-** The table below lists the costs and prices for four businesses involved in making, distributing, and selling bread. Use the information to answer the questions below.

	Cost of Inputs	Price of Output
Farmer Fred	\$0	\$0.50
Baker Bob	\$0.50	\$1.50
Trucker Tom	\$1.50	\$2.25
Retail Rob	\$2.25	\$3.50

16. Calculate the GDP using value-added approach. Explain how you got your answer.
17. How much is the GDP using the expenditure approach? How is this process for calculating GDP different than the value-added approach?