

Tools Build Output

How capital investment can affect GDP per person

SS6E3.c "Explain the relationship between investment in capital goods (factories, machinery, and technology) and gross domestic product (GDP per capita)."

NAME _____

DATE _____

1 READ AND MARK _____ Read it twice

YOUR JOB Underline every specific item that a business uses to produce goods or services, not results such as output or GDP. Circle each full sentence that explains an effect of investment on production, GDP, or GDP per capita.

Investment and Output

- ① Capital goods are tools and equipment businesses use to make other goods or provide services. They include factory buildings, machines, computers, and software. When a country spends money on these items, it is making an investment, not simply buying a consumer product. GDP is the value of final goods and services produced in a country during a year. GDP per capita divides that total by the number of people, so it estimates the average amount of output per person.
- ② Consider a fruit-processing company in Latin America. It may invest in refrigerated equipment, sorting machines, and computer systems that track shipments. Workers can handle more fruit with less spoilage, and the company may sell more processed food. That added production contributes to GDP. If many businesses make useful investments and produce more, a country's GDP can rise. GDP per capita rises when GDP grows faster than the population, because total output is divided among people. This result can support higher average income, though GDP per capita is not the same as every person's income.
- ③ Canada's businesses also invest in capital goods. A forestry mill might buy safer saws and automated scanners, while a service company might improve its digital systems. These purchases can help workers produce more goods or services in the same amount of time. However, investment has a cost, and a machine that is poorly chosen or unused will not raise output. Population matters too. If GDP and population grow at the same rate, GDP per capita stays about the same. This is why output growth must be compared with population growth.

2 ANSWER WITH EVIDENCE _____ Use the passage

1 Why are the refrigerated equipment and sorting machines in the fruit-processing company examples of capital goods?

2 Describe the chain from the company's investment in equipment to a possible rise in GDP.

3 What must happen for GDP per capita to rise, according to the passage? Explain why.

4 If Canada's GDP and population grow at the same rate, what happens to GDP per capita?

3 YOUR TURN _____ Your own words

Imagine a business in a Latin American country or Canada buys one capital good. Write exactly three sentences: name the capital good, explain how it could increase production and GDP, and state what must happen for GDP per capita to rise.

PART 1 • READ AND MARK

Underline every specific item that a business uses to produce goods or services, not results such as output or GDP. Circle each full sentence that explains an effect of investment on production, GDP, or GDP per capita. Accept any marking that follows this job and points at the right text.

PART 2 • ANSWERS

#	QUESTION	ANSWER
1	Why are the refrigerated equipment and sorting machines in the fruit-processing company examples of capital goods?	They are equipment the business uses to process fruit and produce food for sale.
2	Describe the chain from the company's investment in equipment to a possible rise in GDP.	The equipment can help workers handle more fruit with less spoilage. The company may sell more processed food, and that added production contributes to GDP.
3	What must happen for GDP per capita to rise, according to the passage? Explain why.	GDP must grow faster than the population. More total output is then divided among people.
4	If Canada's GDP and population grow at the same rate, what happens to GDP per capita?	GDP per capita stays about the same.

PART 3 • YOUR TURN (SAMPLE ANSWER)

An Argentine bakery buys an automated dough mixer. The mixer lets workers prepare more bread each day, so the bakery's added production can increase GDP. If GDP grows faster than the population, GDP per capita can rise.

Accept any plausible business and capital good that is used to produce goods or services. The response should connect the investment to greater output and GDP, then state that GDP must grow faster than population for GDP per capita to rise.