When Output Shifts

Tracing what changing GDP and GNP can mean for an economy

E.C.9.2 "Describe the impact on the economy when GDP and GNP are growing versus declining."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline two economic effects of growth in both measures, circle two effects of decline in both measures, and put a star beside the sentence that explains how GDP can rise while GNP falls.

Two Measures, Different Stories

1. At the start of each year, Harborland's leaders compare two measures of economic output. Gross domestic product, or GDP, is the value of final goods and services produced inside Harborland, whoever owns the businesses. Gross national product, or GNP, starts with GDP, adds income Harborland residents earn abroad, and subtracts income foreign residents earn inside Harborland. Comparing changes in *real* GDP and real GNP removes the effect of price changes. A higher number means more output, not necessarily a better life for every family. Population growth and who receives the income also matter.

2. Imagine that Harborland's real GDP and real GNP both grow for two years. A local furniture factory makes more tables, and Harborland residents earn more from businesses they operate overseas. To fill new orders, the factory adds shifts and hires workers. More paychecks can support spending at nearby stores, and higher profits may help businesses buy equipment. Tax collections may rise, giving the government more room to fund services without raising tax rates. Yet growth does not guarantee that wages rise for everyone. If most gains go to a few owners, some households may feel little benefit.

3. Now imagine a different year: Harborland's real GDP rises, but its real GNP falls. Factories inside the country produce more, while income going to foreign residents from those factories grows and Harborland residents earn less abroad. The country has more domestic production, but residents may receive less income overall. If both real GDP and real GNP fall instead, factories may cut shifts, workers may lose jobs, and families may spend less. Lower sales can lead businesses to delay investment, while weaker tax collections can strain public services. These are likely pressures, not guaranteed results for every worker or business.

2 ANSWER WITH EVIDENCE

Use the passage

1. When both real GDP and real GNP grow in Harborland, how could that growth affect jobs and nearby stores?

2. If both real GDP and real GNP fall, how could the decline affect workers and public services?

3. How could Harborland's real GDP rise while its real GNP falls, and what might that mean for residents?

4. Why might some households feel little benefit even when both real GDP and real GNP grow?

3 YOUR TURN

Your own words

A coastal nation produces more goods in new factories, but most added profits go to foreign residents, and its residents earn less abroad. Write four sentences explaining one possible direction for real GDP and real GNP, what that combination could mean for residents, and why households might experience it differently.

ANSWER KEY

When Output Shifts

HIGH SCHOOL · E.C.9.2

PART 1 · READ AND MARK

Underline two economic effects of growth in both measures, circle two effects of decline in both measures, and put a star beside the sentence that explains how GDP can rise while GNP falls. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	When both real GDP and real GNP grow in Harborland, how could that growth affect jobs and nearby stores?	**The factory may add shifts and hire workers. Their paychecks may support more spending at nearby stores.**
2	If both real GDP and real GNP fall, how could the decline affect workers and public services?	**Factories may cut shifts or jobs, and weaker tax collections may strain public services.**
3	How could Harborland's real GDP rise while its real GNP falls, and what might that mean for residents?	**Domestic factories could produce more while income paid to foreign residents rises and Harborland residents earn less abroad. Residents may receive less income overall despite higher domestic output.**
4	Why might some households feel little benefit even when both real GDP and real GNP grow?	**Growth does not guarantee higher wages for everyone. Most gains could go to a few owners.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Real GDP could rise because factories inside the country produce more goods. Real GNP could fall if the increase in profits paid to foreign residents and the drop in residents' earnings abroad outweigh the growth in domestic output. Residents could receive less income overall even as local production rises. Factory workers might gain hours, while households that depended on earnings from abroad might lose income.

Accept other passage-supported effects of growth or decline. For the open task, students should treat falling GNP as possible, not certain, because the sizes of the income changes are unknown.