# Beyond the Price Tag

Trace how business choices and economic changes affect GDP.

**E.C.9.3** "Evaluate the impact of self-interest, competition, collusion, technological advancement, standard of living, the business cycle, and fluctuation on the GDP."

NAME _____ DATE _____

## 1 READ AND MARK

Read it twice

**YOUR JOB** Underline choices or events that could change how much a business produces. Circle any mention of prices, then number one through three the places where the passage explains why prices and real output can tell different stories.

### Bikes, Buyers, and GDP

1 At a bicycle factory, owners want profits and workers want wages. Their self-interest can lead them to make and sell more bikes, adding to gross domestic product, or GDP, the value of final goods and services produced within a country. Rival factories compete for buyers by improving quality or lowering prices. If more bikes are made and sold, real GDP, which adjusts for price changes, can rise. But if factory owners secretly agree to keep prices high, they collude. Higher prices alone do not increase real GDP, and reduced sales can lower bike production.

2 Suppose the factory installs a machine that cuts frames faster with less waste. Workers can produce more bikes in the same time, so the factory may sell more and add more to real GDP. Some workers may need new skills, while others might lose their jobs if the factory needs fewer people. More output can help raise living standards by making goods more available and supporting income, but GDP does not show who gets the income or whether the air stays clean. Even rising real GDP does not guarantee that every household is better off.

3 Now imagine a recession, a phase of the business cycle when economic activity falls. Families delay bike purchases, and the factory cuts shifts and postpones buying new equipment. Its contribution to real GDP shrinks as fewer bikes are produced. When incomes and spending recover, the factory may reopen shifts, raising output again. These rises and falls are fluctuations in economic activity, not proof that the factory's machines have become better or worse. A spike in bike prices during a slowdown could increase the dollar value of sales even if fewer bikes are made, so compare real GDP when judging output.

## 2 ANSWER WITH EVIDENCE

Use the passage

1. Two helmet makers compete for buyers. If their efforts lead them to produce and sell more helmets, how would that affect real GDP? Why would a lower price alone not have the same effect?

2. Two skateboard makers secretly agree to charge more and make fewer boards. How would the drop in production affect real GDP? Why would their higher prices not reverse that effect?

3. A shoe factory adds a machine that makes more shoes per hour but replaces some jobs. Evaluate one likely effect on real GDP and one reason the change might not improve every worker's standard of living.

4. During a recession, a furniture factory cuts shifts, then restores them when spending recovers. How would its contribution to real GDP fluctuate, and what causes the change?

## 3 YOUR TURN

Your own words

Invent a business not mentioned above. In four sentences, explain how self-interest and either competition or collusion could change its contribution to real GDP, how technology could affect output and living standards, and how a recession might change the result.

ANSWER KEY

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HIGH SCHOOL · E.C.9.3

## PART 1 · READ AND MARK

Underline choices or events that could change how much a business produces. Circle any mention of prices, then number one through three the places where the passage explains why prices and real output can tell different stories. Accept any marking that follows this job and points at the right text.

## PART 2 · ANSWERS

| # | QUESTION | ANSWER |
|---|---|---|
| 1 | Two helmet makers compete for buyers. If their efforts lead them to produce and sell more helmets, how would that affect real GDP? Why would a lower price alone not have the same effect? | **Producing and selling more helmets would raise their contribution to real GDP. A lower price alone does not mean that more goods were produced.** |
| 2 | Two skateboard makers secretly agree to charge more and make fewer boards. How would the drop in production affect real GDP? Why would their higher prices not reverse that effect? | **Fewer boards would lower their contribution to real GDP. Real GDP adjusts for price changes, so higher prices alone do not make up for lower output.** |
| 3 | A shoe factory adds a machine that makes more shoes per hour but replaces some jobs. Evaluate one likely effect on real GDP and one reason the change might not improve every worker's standard of living. | **If the factory produces and sells more shoes, its contribution to real GDP can rise. Workers who lose their jobs may have less income and may not share in the gains.** |
| 4 | During a recession, a furniture factory cuts shifts, then restores them when spending recovers. How would its contribution to real GDP fluctuate, and what causes the change? | **Its contribution would fall as it produces less during the recession, then rise as spending recovers and it produces more.** |

## PART 3 · YOUR TURN (SAMPLE ANSWER)

A neighborhood soap maker seeks higher profits by competing on quality, and if it produces and sells more soap, its contribution to real GDP rises. A faster mixer could increase the number of bars made per hour and make soap more available to customers. Still, workers replaced by the mixer might not share in those gains, so higher output does not guarantee a higher standard of living for everyone. During a recession, falling household spending could reduce soap sales and production, lowering the business's contribution to real GDP.

Accept other plausible effects when students connect a change in real GDP to production rather than prices alone. For the open task, look for a clear distinction between increased output and improvements in everyone's standard of living.