Reading for BTM -- ANSWER KEY

Read the excerpt from your economics textbook and answer the following questions.

What is the difference between microeconomics and macroeconomics?
- Microeconomics: the study of the economic behavior of individual consumers, workers and companies
- Macroeconomics: the study of how the economy functions at the aggregate level

What is allocative efficiency?
- The assumption from neoclassical economics that an efficient economy is one which maximizes the exchange of goods or services through the market.

What is GDP and how is it measured?
Gross domestic product, measured by adding up the value of all the goods and services produced for money in the economy. In the private sector, it is based on the market price of everything that's bought and sold less the cost of inputs and supplies purchased. In the public sector, it is based on the cost of everything that's produced less the cost of inputs and supplies purchased. GDP should only measure value added by new work at each stage of production.

What are two problems with relying on GDP as a measurement of prosperity or well-being?
- Doesn't include unpaid work
- Doesn't measure other indicators of human well-being

What is the difference between nominal and real GDP?
- Nominal measures currency
- Real deducts the effect of inflation

How is economic growth measured?
- Increase in amount of work performed
- Increase in efficiency or productivity