CONCEPT: VALUE-ADDED METHOD FOR MEASURING GDP

- Remember: GDP is the value of the final goods and services produced by a country during a year
    - □ The normal approach takes the market value of these final goods (i.e. a Chevy Malibu)
        - > However, there are many intermediate steps in producing a final product
    - □ ***Value added*** – the market value that a firm adds to a product

EXAMPLE: Mining Company Corporation extracts iron ore from its deposits and is able to sell the ore for a price of $5,100 per ton. The Refinery Company Corporation refines iron ore and sells the refined ore for $7,800 per ton. Steel Company Corporation purchases refined iron ore and produces steel, which it sells for $11,200 per ton. Chevrolet purchases steel to produce a Malibu, which it sells to consumers at a price of $16,900. What is the increase in GDP for each Malibu produced?

Stage of Production	Sales Value of Material	Value Added
Mining Company Corporation: Iron ore extracted		
The Refinery Company Corporation: Iron ore refined		
Steel Company Corporation: Steel produced		
Chevrolet: Chevy Malibu produced		
Total		

PRACTICE: A cotton farmer produces raw cotton, which it can sell to a processor at a price of $2. The processor weaves the cotton into fabric and sells it for $3. A clothing company purchases the fabric and creates a crappy t-shirt, which it can sell for $7. Urban Outfitters buys crappy t-shirts and resells them for $45. What is the value added by the clothing company?

a) $3
b) $4
c) $7
d) $38