Answers to Questions for Review

18.1 (a) Use the procedure in Table 18.1. The value of products sold at market prices is 100. Deduct taxes on products, 15, and add subsidies on products of 5, to get the value of products sold at basic prices as 90. Deduct other taxes on production of 6 and add other subsidies on production of 1 to get the value of products sold at factor cost as 85.

(b) Use the procedure in Table 18.2. The value of its output at factor cost is the value at factor cost of the products sold, 85, plus the value of finished goods added to inventories of 10, that is 95. The value of intermediate products bought is 50, but 5 were added to stocks so 45 were used in production. Deduct this from the value of production of 95 to get value added at factor cost as 50.

(c) Use the procedure in Table 18.4. The value of products sold at factor cost is 85. The sum of compensation of employees, 35, plus purchases of intermediate products, 50, minus increase in inventories of finished goods, –10, minus increase in inventories of raw materials, –5, is 70. So the operating surplus is 85–70 or 15. Note that the operating surplus of 15 plus compensation of employees of 35 also equals value added at factor cost.

18.2 (a) GDP at factor cost is compensation to employees of £750 billion plus all trading surpluses of £500 billion (that is £350 billion + £150 billion) which is £1,250 billion.

(b) GDP at basic prices adds in other taxes on production of £50 billion and subtracts other subsidies on production of £10 billion, which makes £1,290 billion.
(c) GDP at market prices adds in taxes on products of £200 billion and subtracts subsidies on products of £40 billion, which makes £1,450 billion.

18.3  
(a) GDP at market prices equals the three groups of consumption expenditure, plus gross domestic fixed capital formation, plus changes in inventories, plus acquisitions less disposals of valuables, plus exports, minus imports; this is £1,450 million.
(b) GNI equals GDP plus net income from abroad of £40 million (that is £150 million – £110 million) and is £1,490 million.
(c) GNDI equals GNI plus net current transfers from abroad of £10 million (that is £30 million – £20 million) and is £1,500 million.

18.4  
(a) Measured GDP would not notice the rise.
(b) With a rise in total production, economic welfare would be regarded as rising. Note, though, that other aspects of welfare might be adversely affected if the extra production was of illegal substances with damaging consequences, and also if people outside the underground economy were annoyed by the increased tax evasion of those in it.