



TRACKING THE U.S. ECONOMY

Case Studies

Case Study 6.1: GDP and The State of the USA

GDP estimates have been refined for decades and are arguably the most complex data aggregation effort in the world. But they have their limits, as discussed already, and they have their critics. One criticism is that GDP leaves out much of what's going on in the nation—with health care, the environment, the family, energy use, and so on. One challenge to GDP as the primary indicator of national progress is coming from a nonprofit group that has developed a Web site to bring together hundreds of indicators. The idea is to help Americans assess the progress of the United States by using quality data selected by experts.

First, a little background. In 2003, a team at the U.S. Government Accountability Office, the investigative arm of Congress, was looking for alternatives to GDP to assess national progress. The team became an independent nonprofit agency in 2007 and took the name "The State of the USA." With startup funding from the Gates, Hewlett, MacArthur, and Rockefeller foundations, the group set out to identify data that would amount to a report card on how the country is doing in specific areas—such as health care, education, the environment, safety, energy, transportation, the economy, the family, and so forth. The goal is to help citizens and leaders assess what progress has been made and where we need to improve.

The effort got a big boost from a small provision in the massive 2010 health care bill that requires Congress to help finance and oversee a "key national indicator system." State of the USA will become that system, overseen by the National Academy of Sciences, a group of pre-eminent scholars established by Abraham Lincoln in 1863 to "investigate, examine, experiment, and report upon any subject of science or art" whenever called upon to do so by any department of the government (half the 20 economists in the National Academy are Nobel laureates). Along with the federal authorization came federal funding totaling \$70 million between 2010 and 2018.

The objective is not so much to replace GDP as the primary measure of economic performance, but to broaden the conversation and the debate by including many more data series. Instead of just having one gauge on the dashboard, GDP, there would be many gauges. The State of the USA Web site went live in 2010, and is accessible for free. Eventually, The State of the USA plans to offer about 300 indicators. Rather than develop original data, the site compiles and displays data gathered by others. Despite the number of data series, the group says the site will be selective, not encyclopedic. For example, in health care alone the government collects about 1,000 different measures. The State of the USA offers what they claim are the 20 most crucial health care measures. The group says its objective is not to interpret the data but to disseminate it in a strictly nonpartisan manner.

The idea is to offer data in a form that can be easily shared to promote as wide a distribution as possible. Data will be available on the national level, state level, and as far down the jurisdictional chain as possible. For example, one of the 20 health care measures reports smoking rates by state (West Virginia is the highest and Utah is the lowest). The State of the USA will also offer a variety of interactive features to encourage exploration, such as motion charts with audio tutorials focusing on health costs and outcomes for the developed world. Check out the site and see what you think.

SOURCES: Jon Gertner, "The Rise and Fall of the G.D.P." *New York Times*, 10 May 2010; and The State of the USA site at <http://www.stateoftheusa.org/>.

QUESTION

1. Is The State of the USA designed to replace GDP as the primary measure of economic performance?

Case Study 6.2: Price Check on Aisle 2

The U.S. economy is one of the most dynamic in the world, marked by rapid technological change. The Bureau of Labor Statistics (BLS), the government agency that calculates the CPI each month, employs dozens of economists to analyze the impact of any quality changes to products in the CPI market basket. Each month 400 data collectors visit stores to record about 85,000 prices for 211 item categories in the CPI basket. About a week before the CPI is released, the BLS office is locked down with bright red "restricted area" signs on all the doors. A total of 90 people, including product specialists and the other economists working on the CPI, compute the basic indexes in each category. Results are released at 8:30 A.M., Eastern Time, about two weeks after the end of the month in question. This release is a big deal.

Most price adjustments are straightforward. For example, if a candy bar shrinks 10 percent but still sells for the same price, the CPI shows this as a 10 percent price increase. But sometimes a product changed in a more complicated way. Economists at BLS specialize in particular products, such as televisions, automobiles, kitchen appliances, and so on. One of their greatest challenges is to identify substitutes for products that are no longer available on the market. For example, data collectors find the model of TV they priced the previous month is missing about one-fifth of the time. When a particular product is missing, a four-page checklist of features such as screen size and the type of remote control guides the data collector to the nearest comparable model. That price is reported and the product specialist in Washington must then decide whether it's an acceptable substitute.

For example, the TV specialist decided that the newer version of the 27-inch model had some important improvements, including a flat screen. A complex computer model estimated that the improvements alone would be valued by consumers as worth \$135 more. After factoring improvements into the price of the \$330 set, the analyst determined that the price of the TV had actually declined 29 percent [$= 135/(330 + 135)$]. In another example, the price of a 57-inch TV dropped from \$2,239 to \$1,910, for an apparent decline of 15 percent. But on closer inspection, the analyst found that the new model lacked an HDTV tuner that had been included in the model it replaced. This tuner would be valued by consumers at \$514. So, instead of declining 15 percent, the price of the 57-inch TV actually rose 11 percent [$= 1,910/(2,239 - 514)$].

The TV analyst is applying the *hedonic method*, which breaks down the item under consideration into its characteristics, and then estimates the dollar value of each characteristic. This is a way of capturing the impact of a change in product quality on any price change. Otherwise, price changes would not reflect the fact that consumers are getting more or less for their money as product features change over time.

SOURCES: Jon Hilsenrath, "A Deeper Look at the Fed's Inflation Debate," *Wall Street Journal*, 5 April 2010; Javier Hernandez, "Prices of Consumer Goods Hold Steady, Indicating That Inflation Is at Bay," *New York Times*, 18 March 2010; and Mary Kokoski, Keith Waehrer, and Patricia Rosaklis, "Using Hedonic Methods for Quality Adjustment in the CPI," U.S. Bureau of Labor Statistics Working Paper (2000) found at <http://www.bls.gov/cpi/cpiad10.htm>.

QUESTION

1. What is the hedonic method and why is it sometimes used to track changes in the consumer price index?

Question Completion Status:

Take Test: Unit II Assessment

Description
Instructions

General Information:

- This assessment can be opened multiple times, but can only be submitted **once**.
- You may print this assessment to mark your answers prior to entering them online, or you may enter your answers directly online. Periods of inactivity will cause your assessment to time out resulting in an unwanted submission.
 - **Be sure to save each answer as you complete the question in order to avoid losing any work.**
- For any questions pertaining to the grading of your assessment, please refer to the CSU Grading Rubric found at the Academic Policies link on your Course Menu.
- For a description of the various types of questions you may encounter in an assessment, [click here to view the Submission Instructions page](#).

Written Responses:

- Unless otherwise indicated, there is a 200 word **minimum** response required.
- Credible reference materials, including your course textbook(s), may be used to complete the assessment.
 - **If you have questions regarding the credibility of your reference, please contact your professor.**
- **APA Information**
 - In-text and reference citations are required for **all** written responses.
 - **REQUIRED FOR UPLOADED ASSIGNMENTS ONLY:** title page, margins, header, double spacing, and hanging indentation
 - For questions concerning APA formatting, please refer to the APA Guidelines found at the Student Resources link on your Course Menu.

Multiple Attempts Not allowed. This Test can only be taken once.

Force Completion This Test can be saved and resumed later.

Save All Answers

Close Window

20 points

Question Completion Status:

Discuss what is, and what is not, included in calculating GDP.

Your response should be at least 75 words in length. You are required to use at least one source as source material for your response. All sources used, including the textbook, must be referenced; paraphrased and quoted material must have accompanying citations.

Paragraph Arial 3 (12pt)

Path:

Words:0

Question 2

Why does the consumer price index exaggerate the inflation rate?

Your response should be at least 75 words in length. You are required to use at least your textbook as source material for your response. All sources used, including the textbook, must be referenced; paraphrased and quoted material must have accompanying citations.

Paragraph Arial 3 (12pt)

Path:

Words:0

Question 3

Why does investment spending not equal saving in the circular flow?

Your response should be at least 75 words in length. You are required to use at least your textbook as source material for your response. All sources used, including the textbook, must be referenced; paraphrased and quoted material must have accompanying citations.

Paragraph Arial 3 (12pt)

20 points

Question Completion Status:

20 points Save Answer

Path:

Words:0

Question 4

Discuss the limitations of national income accounting.

Your response should be at least 75 words in length. You are required to use at least your textbook as source material for your response. All sources used, including the textbook, must be referenced; paraphrased and quoted material must have accompanying citations.

Paragraph Arial 3 (12pt)

Path:

Words:0

Question 5

20 points Save Answer

Why do total leakages and total injections have to be equal?

Your response should be at least 75 words in length. You are required to use at least your textbook as source material for your response. All sources used, including the textbook, must be referenced; paraphrased and quoted material must have accompanying citations.

Paragraph Arial 3 (12pt)

Path:

Words:0

▼ Question Completion Status:

Save and Submit

Click Save and Submit to save and submit. Click Save All Answers to save all answers. Click Close Window to close window.

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