

There seems to have been some confusion created by parts (b) and (c) of question 7.

The value of Michelin auto tires produced in France and purchased by GM for its cars would not be counted as part of US GDP as GDP measures the value of goods and service produced in the US. The value of the tires produced in France should be included in the GDP of France.

The value of Goodyear tires produced in the U.S and purchased by Ford for its cars would be counted as part of US GDP as GDP measures the value of goods and service produced in the US. Since the tires are an intermediate input into the production of the car (the final good), the important point is that we do not want to *double* count the tires by adding together the value of the car (which also includes the value of the tires) and the value of the Goodyear production. We only want to count the tires once. We can do this either by calculating GDP using the final sales approach (in which we would add in the value of the car as part of final sales or, if use the value added method, by adding the value of the car minus the value of intermediate inputs (i.e., so subtracting out the value of the tires) to the value added of Goodyear (which would add in the value of the tires net of intermediate inputs). However we actually calculate GDP, we want to count the value of US tire production, but we only want to count it once.