

Macroeconomics part 1 assignment

[Economics](#)



Macroeconomics Problem Set 1

1. Explain why an economy's income must equal its expenditure
2. List the four components of GDP. Give an example of each
3. Why do Economists use real GDP rather than nominal GDP to gauge economic well-being
4. What component of GDP (if any) would each of the following transactions affect? Explain
 - a. A family buys a new refrigerator
 - b. Jane buys a new house
 - c. Ford sells a Thunderbird from its inventory
 - d. You buy a pizza
 - e. The Government builds a new bridge in Montana
 - f. Your parents buy a bottle of French wine
 - g. Chevrolet expands its factory in Ecuador

Below are some data from the land of milk and honey

Year	Price Milk	Q milk	Price Honey	Q Honey
2001	1	100	2	50
2002	1	200	2	100
2003	2	200	4	100

- a. Compute nominal GDP, real GDP and the GDP Deflator for each year, using 2001 as the base year
- b. Compute the percentage change in nominal GDP, real GDP, and the GDP deflator in 2002 and 2003
- c. In your opinion, did economic well-being rise more in 2002 or 2003. Explain

6. Which do you think has a greater effect on consumer price index a 10% increase in the price of chicken or a 10% increase in the price of caviar.

Why

7. If the price of a navy submarine rises, is the consumer price index or the GDP deflator affected more? Why?
8. Explain the meaning of nominal interest rate and real interest rate
9. Suppose that people consume only three goods as shown below:

Year	Tennis balls	Tennis racquets	Gatorade
2001	price 2	40	1
2001 Q	100	10	200
2002	price 2	60	2
2002 Q	100	10	200

 - a. What is the percentage change in the price of each good? What is the percentage change in the overall price level
 - b. Do tennis racquets become more or less expensive relative to Gatorade?
10. Suppose that the residents of Vegopia spend all of their income on cauliflower, broccoli and carrots. In

2001 they buy 100 heads of cauliflower for \$200, 50 bunches of broccoli for \$75 and 500 carrots for \$50. In 2002 they buy 75 heads of cauliflower for \$225, 80 bunches of broccoli for \$120 and 500 carrots for \$100. If the base year is 2001, what is the CPI in both years. What is the inflation rate?

11. List and describe the 4 determinants of productivity

12. What are the three categories in which the INEC divides everyone when computing employment and unemployment

3. What are the different types of unemployment and how does each affect the labor market. Which is more negative for economic growth

14. Using Ecuador's data (www.bce.fin.ec or INEC.gov.ec) create a table with the following information and analyze the data (comment on the behavior of the indicators during that period of time)

h. Nominal GDP 2000-2011

i. Real GDP 2000-2001

j. Estimate the GDP Deflator

k. CPI (annual) 1995-2010

l. Estimate annual inflation rate

m. Labor Force (2000 ??? 2010) yearly

n. Unemployment

o. Estimate the Unemployment rate