

Econ-545 week 6 quiz



**ASSIGN
BUSTER**

1. Question: (TCO F) The size of the labor force in a community is 1,000, and 850 of these folks are gainfully employed. In this community, 50 people over the age of 16 do not have a job and are not looking for work. In addition, 80 people in the community are under the age of 16. The unemployment rate is ____.

Student Answer: Unemployment rate = $\frac{\text{unemployed}}{\text{labor force}} \times 100$ $\frac{150}{1000} \times 100 = 15\%$ $1000 - 850 = 150$ (number of people unemployed) then divided by total labor force divided by 100

Instructor Explanation: The unemployment rate is calculated by dividing the number of unemployed by the labor force.

The labor force is calculated by subtracting three things from the population (# under 16, # of institutionalized adults, and # not looking for work). In this example, you are given the size of the labor force (1,000), and you are also told that 850 are employed. Therefore, 150 are unemployed, and the unemployment rate is simply $\frac{150}{1,000}$ or 15%.

Points Received: 15 of 15

2. Question: (TCO F) Suppose nominal GDP in 2005 was \$15 trillion, and in 2006 it was \$16 trillion. The general price index in 2005 was 100, and in 2006 it was 103.

Between 2005 and 2006, real GDP rose by what percent?

Student Answer: Nominal GDP and REAL GDP must be equal in the base year. 2005 15tr, price index = 100 since nominal and real GDP must be equal in the base year $\frac{15\text{tr}}{1.03} = 16.56\text{tr}$ $\frac{16.56 - 16.00}{16.00} = 4\%$ or 3.5%

Instructor Explanation: You need to make use of the inflation formula for the GDP deflator here and compare results between the two years. For 2005: $100 = \left[\frac{\$15 \text{ T}}{\text{Real GDP}} \right] \times 100$ So, Real GDP must equal \$15 T. You could

also recognize that Real GDP and nominal GDP are the same in the base year.

For 2006: $103 = [\$16 \text{ T} / \text{Real GDP}] \times 100$
 $1.03 = [\$16 \text{ T} / \text{Real GDP}]$
 $\text{Real GDP} = \$16 \text{ T} / 1.03$
 So, Real GDP must equal \$15.534 T. The percentage increase in Real GDP will then be $[(15.534 - 15) / 15] \times 100 = (0.534 / 15) \times 100 = 3.56\%$
 Therefore Real GDP increases by 3.56% between 2005 and 2006.

Points Received: 19 of 20 | Comments: 3 | Question:

(TCO F) The consumer price index was 198.3 in January of 2006, and it was 202.4 in January of 2007. Therefore, the rate of inflation in 2006 was about _____.

Student Answer: $202.4 - 198.3 = 4.1$
 $4.1 / 198.3 = .02067$ or 2.07%

Instructor Explanation: The rate of inflation is the rate of change of the inflation indicator, or more specifically: $[(\text{New Price Index} - \text{Old Price Index}) / (\text{Old Price Index})] \times 100$
 In this case this equals, $[(202.4 - 198.3) / 198.3] \times 100 = (4.1 / 198.3) \times 100 = 2.07\%$ or approximately 2%.

Points Received: 15 of 15 | Comments: 4 | Question:

(TCO E) (10 points) As the U. S. dollar appreciates in value relative to the Japanese Yen, what happens to the price of U. S. goods in Japan?

What happens to the price of Japanese goods in the U. S.? (10 points) Why would a country (for example China) choose to keep their currency relatively pegged to the U. S. dollar? If the U. S. dollar were to appreciate considerably against most currencies, what would be the effect on Chinese exports to countries other than the U. S.?

Student Answer: | the price of goods in Japan start going up. the price Japanese goods in US start going down. China keeps its currency pegged in order to sell their goods for a cheaper price in the US and to make the US market dependent on their product. If dollar

appreciate it will drag China's currency with it, in other words reducing China's export. | | Instructor Explanation:| When a country's currency appreciates, it becomes more valuable versus the other currency we're comparing against. So, in this case, it would take fewer dollars to purchase the same amount of Japanese Yen, U. S. goods become more expensive to Japanese buyers, and Japanese goods become cheaper to U. S. buyers. A country such as China might choose to peg their currency to the U. S. dollar to keep prices stable for a key trading partner like the U.

S. If the U. S. dollar would appreciate considerably against most currencies, this would not affect China trade with the U. S. , but Chinese goods would become more expensive to their other trading partners, and could cause Chinese exports to these other markets to decrease. | | | | Points Received:| 17 of 20| | Comments:| | | | | 5. | Question: | (TCO E) Suppose the Indian rupee price of one British pound is 54. 392 rupees for each pound. A hotel room in London costs 120 pounds, while a similar hotel room in New Delhi costs 6, 500 Indian rupees.

In which city is the hotel room cheaper, and by how much? | | | Student Answer:| | London hotel room 120 pound or 6527 rupee (120×54.392) India hotel room 119. 50 pounds ($6500/54.392$) or 6500 rupee the hotel room is cheaper in India for . 50 cent in pound or 27 rupees| | Instructor Explanation:| Since the exchange rate is 1 pound = 54. 392 Indian rupees, we can convert the price of the hotel room in London to Indian rupees and then be able to compare. $120 \text{ pounds} = \text{rupees}(120 \times 54.392) = 6, 527$ rupees.

Since the hotel room in New Delhi costs 6, 500 rupees, it must be that the hotel room costs 27 rupees more in London than in New Delhi. | | | | Points

Received:| 15 of 15| | Comments:| | | | | 6. Question: | (TCO E) Answer the

next question on the basis of the following production possibilities data for

Egypt and Greece: Egypt production possibilities:

A	B	C	D	E	Shirts	0
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3	6	9	12	Pants	24	18	12
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6 0 Greece production possibilities:

A	B	C	D	E	Shirts	40	30
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20	10	0	Pants	0	40	80	120	160
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Refer to the above data. What would be feasible terms of trade between

Egypt and Greece? | | | Student Answer:| | terms of trade between 2

countries lie somewhere between the opportunity costs in the 2 countries. in

this case Egypt 1 shirt= 2 pants and in Greece case 1 shirt= 4 pants, so the

only feasible term of trade between the 2 countries would be anywhere in

between these limits anything between 2 and 4 shirts and pants would work.

t any terms of trade higher or lower than 2 or 4 pants per shirt , one of the

countries would be able to do better than the terms of trade simply by

trading off resources in their own country. | | Instructor Explanation:|

Feasible terms of trade between 2 countries lie somewhere between the

opportunity costs in the 2 countries. In this case, in Egypt -- 1 Shirt = 2

Pants, and in Greece -- 1 Shirt = 4 Pants. So, the only feasible terms of trade

between the 2 countries would be anywhere in between these limits --

anything between 2 and 4 Pants per Shirts would work.

At any terms of trade higher or lower than 2 to 4 Pants per Shirts, one of the countries would be able to do better than the terms of trade simply by trading off resources in their own country. | | | | Points Received: | 20 of 20 | | Comments: | | | | | 7. | Question: | (TCO F) The Republic of Republic produces two goods/services, fish (F) and chips (C). In 2006, the 1000 units of F produced sold for \$8 per unit and the 5000 units of C produced sold for \$1 per unit. In 2007, the 1500 units of F produced sold for \$10 per unit, and the 6,000 units of C produced sold for \$2 per unit.

Calculate Real GDP for 2007, assuming that 2006 is the base year. | | |

Student Answer: | | base year 2006 1,000 units of fish at 8/unit = 8,000 5,000 units of chips at 1/unit = 5,000 GDP = 13,000 2007 1,500 units of fish at 10/unit = 15,000 6,000 units of chips at 2/unit = 12,000 GDP = 27,000 Real GDP with 2006 as the base year 1500 units of fish at 8/unit = 12,000 6,000 unit chips at 1/unit = 6,000 Real GDP = 18,000 18,000-13,000/13,000 GDP grew by 28% | | Instructor Explanation: | For 2006, Nominal GDP = $(\$8 \times 1000) + (\$1 \times 5000) = \$13,000$.

Real GDP for 2006 would be the same (\$13,000). For 2007, Nominal GDP = $(\$10 \times 1500) + (\$2 \times 6000) = \$27,000$. Real GDP for 2007 would be $(\$8 \times 1500) + (\$1 \times 6000) = \$18,000$. That is, when calculating real GDP for a given year you use the production numbers for that year and the prices from the base year. | | | | Points Received: | 12 of 15 | | Comments: | | | | | 8. | Question: | (TCO F) Country A produces two goods, elephants and saddles. In the year 2006, the 10 units of elephants produced sold for \$2,000 per unit and the 25 units of saddles produced sold for \$200 per unit.

In 2007, the 20 units of elephants produced sold for \$3,000 per unit, and the 50 units of saddles produced sold for \$300 per unit. Real GDP for 2007, assuming that 2006 is the base year, is _____. ||| Student Answer:| | base year 2006 10 units at 2000 per unit = 20,000 25 saddles at 200= 5000 GDP= 25,000 2007 20 units at 3,000 per unit = 60,000 50 saddles at 300= 15000 GDP= 75,000 real GDP with 2006 as the base year 20 units of elephants at 3000 = 60000 for 50 units of saddles at 250 = 12500 real GDP 72500 72500-25000/72500 real GDP grew by 190%. | Instructor Explanation:| Real GDP is calculated for a given year by using the quantities produced in that year and substituting the base year prices. In this example we get: 20 (\$2,000) + 50 (\$200) = \$40,000 + \$10,000 = \$50,000. ||| Points Received:| 12 of 15| | Comments:| ||||| 9. | Question: | (TCO E) A Honda Accord sells for \$28,000 in the United States and for SF35,520 in Switzerland. Given an exchange rate of SF1.5 = \$1, how do the car prices of both countries compare? ||| Student Answer:| | with an exchange rate of SF1.25=\$1 28,000*1.25= 35,000 SF price is 35,520 the car sells for SF520 more in Switzerland than it does in the US. | | Instructor Explanation:| At an exchange rate of \$1 = SF1.25: \$28,000 would equal (1.25 x 28,000) Swiss Francs = SF35,000, meaning that the car sells for SF520 more in Switzerland than it does in the U. S. Points 15 of 15| |||||