

# Fly cheap airlines essay sample

[Economics](#)



**ASSIGN  
BUSTER**

1. Why does inflation make nominal GDP a poor measure of the increase in total production? -Nominal GDP is the value of final goods and services evaluated at current-year prices and are calculated by summing the current values of final goods and services. In the other hand, the real GDP is and services in the base year to calculate the value of goods and services in all other years. “ Real GDP holds prices constant, which makes it a better measure than nominal GDP of changes in the production of goods and services from one year to the next. In fact, growth in the economy is almost always measured as growth in real GDP” (Hubbard, & O’Brien, 2012).

Nominal GDA is GDA without any adjustments of inflation, which makes it seem like there is growth even when there isn’t. However during inflation is hard to estimate how much increase in nominal GDA there has been due to the increase in total production and how much of an increase there has been as well due to inflation,.

2. Which component of GDP will be affected by each of the following transactions involving Fly Cheap Airlines? If you do not believe any component will be affected, briefly explain why. i. You purchase a ticket on a Fly Cheap Airlines to visit your niece: Consumption expenditure since this was a Spending by households on goods and services, not including spending on new houses. Yes it would affect GDP. ii. Fly Cheap Airlines purchases a new jetliner from Boeing: Investment expenditure since this was a Spending by a firm on new factories, office buildings, machinery, and additions to inventories, plus spending by households and firms on new houses. Yes it would affect GDP. iii. Fly Cheap Airlines purchases new seats to be installed on a jetliner it already owns: Investment expenditure since

this was a Spending by a firm on new factories, office buildings, machinery, and additions to inventories, plus spending by households and firms on new houses. Yes it would affect GDP. iv. Fly Cheap Airlines purchases 200 million gallons of fuel.

This will not affect any component since expenditure of fuel is an intermediate payment and is not part of GDP. v. A French citizen purchases a ticket to fly on a Fly Cheap flight from Paris to New York.: This is export expenditure and no, it would not affect GDP. vi. The city of Nashville agrees to spend funds to extend one of the runways so that Fly Cheap will be able to land larger jets: This is government expenditure and would affect the GDP.

ii. Calculate the average annual growth rate of real GDP for the period from 1994 to 1997.  $= (.17\% + 3.22\% + 2.67\% + 4.02\%) = 10.08/4 = 2.52\%$

iii. How does the average annual growth rate you calculated in (ii) above compare to the average growth rate the U. S. normally expects? -It is actually much lower than the average growth rate the US normally expects.

4. In an open economy, trade is allowed between countries. Assume a consumer purchases \$1,000 worth of furniture manufactured in China. Answer the following: a. Which component(s) of GDP are impacted by this purchase? -“ The BEA divides its statistics on GDP into four major categories of expenditures: consumption, investment, government purchases, and net exports. Economists use these categories to understand why GDP fluctuates and to forecast future GDP” (Hubbard, & O’Brien, 2012). So this means consumption expenditure, investment expenditure, government expenditure, and net exports (exports minus imports).

<https://assignbuster.com/fly-cheap-airlines-essay-sample/>

b. Does GDP increase, decrease or stay the same? Briefly explain why. -“ As we have seen, economists reserve the word investment for purchases of machinery, factories, and houses. Economists don’t include purchases of stock or rare coins or deposits in savings accounts in the definition of investment because these activities don’t result in the production of new goods” (Hubbard & O’Brien, 2012). So, GDP stays the same, it doesn’t result in an increase in production. DPA doesn’t affected by any of those activities or isn’t included in that economic definition of investment.

c. Does your answer change if the company in China is a U. S.-owned company? Why or why not? -Yes it would. For example, if a farmer from the US sells a product to China, the value of that product is included in GDP because it represents production in the United States. “ Imports are goods and services produced in foreign countries and purchased by U. S. firms, households, and governments. They subtract imports from total expenditures because otherwise we would be including spending that does not result in production of new goods and services in the United States” (Hubbard & O’Brien, 2012). In the other hand, if U. S. consumers buy certain quantity worth of furniture manufactured in China, that spending is included in consumption expenditures, but the value of those imports is subtracted from GDP because the imports do not represent production in the United States.

5. Describe the relationship between labor productivity and growth? How do technological advancements impact labor productivity? Labor productivity is the quantity of goods and services that can be produced by one worker or by one hour of work. “ In analyzing long-run growth, economists usually

measure labor productivity as output per hour of work to avoid the effects of fluctuations in the length of the workday and in the fraction of the population employed. If the quantity of goods and services consumed by the average person is to increase, the quantity of goods and services produced per hour of work must also increase” (Hubbard & O’Brien, 2012). Economists also think that there are two key factors that determine labor productivity. First are the quantity of capital per hour worked and the level of technology. As a result, economic growth occurs if the quantity of capital per hour worked increases and if technological change occurs. “ Economic growth depends more on technological change as well. Technology is a method a firm should use to turn inputs into outputs of goods and services. Technological change is a boost in the quantity of output firms can manufacture, using a given quantity of inputs. Most technological changes come with changes in new machinery, equipment, or software.

#### Resources:

Hubbard, R. G., & O’Brien, A. P. (2012). Economics, 4th Edition. [VitalSource Bookshelf version]. Retrieved from <http://online.vitalsource.com/books/9781269732499/id/ch21lev2sec1>