

Macroeconomics homework assignment

[Economics](#)



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BUSTER**

Economic well-being rose more in 2009 than in 2010, since real GDP rose in 2009 but not in 2010. In 2009, real GDP rose but prices did not. In 2010, real GDP did not rise but prices did. 2. What components of GDP in this year (if any) would each of the following transactions affect? How about total GDP in this year? Explain.

A. A family buys a new refrigerator. Consumption increases because a refrigerator is a good purchased by a household. Total GDP increases by the same amount.

B. Aunt Jane buys a new house. Investment increases because a new house is an investment good. Total GDP increases by the same amount.

C. Ford sells a Mustang from its inventory. Consumption increases because a car is a good purchased by a household, but investment decreases because the car in Ford's inventory had been counted as an investment good until it was sold. The increase in consumption cancels the decrease in investment, so there is no change to the total GDP (recall that GDP does not include the value from sale of used goods).

d. You buy a pizza from a local pizza place. Consumption increases because pizza is a good purchased by a household. Total GDP increases by the same amount.

e.

California repaves Highway 101. Government purchases increase because the government spent money to provide a good to the public. Total GDP increases by the same amount.

F. Your parents buy a bottle of French wine. Consumption increases because the bottle is a good purchased by a household, but net exports decrease because the bottle was imported. The increase in consumption cancels the decrease in net exports, so there is no change to the total GDP (recall that GDP does not include the value of foreign produced goods).

g. Honda downsizes its factory in Marseilles, Ohio.

Investment decreases because some structures and equipment were put away.

Total GAP decreases by the same amount. . A senior lady in Cleveland receives social security from the government. Neither any Of the components nor the total GAP is affected. Because social security is a kind of transfer payment, which is not included in GAP. 3. Explain a. Why a closed economy's income must equal its expenditure? A closed economy's income must equal its expenditure, because every transaction has a buyer and a seller. Thus, expenditure by buyers must equal income by sellers. B. Why do economists use real GAP rather than nominal GAP to gauge economic wellbeing?

Economists use real GAP rather than nominal GAP to gauge economic wellbeing because real GAP is not affected by changes in prices, so it reflects only changes in the amounts being produced. Because it measures the economy's production of goods and services, it reflects the economy's ability to satisfy people's needs and desires. But nominal GAP is affected both by quantity and price. You cannot determine if a rise in nominal.