Assignment 1: Due on Feb, 14 at the BE office (before 3 pm.)

EE312

Instructions:

- There are three parts. Part I has two algebra questions. Part II are true/false questions. Part III has two essay-based equation. Attempt all!
- Please submit part I separately. Part II and Part III can be put together in the same book. (Your TA will grade part I, and I will grade the remaining parts)
- In part II, make it precise. The most effective way to answer True/false question is to strike to the point, and find a rebuttal case if you believe that it is incorrect. (As you may guess, the most likely answer should be either false or uncertain.)
- In part III, when you compose an essay, it means that you have to answer by writing in complete sentences and in paragraphs. Please do not answer as if you were preparing a note-taking for your own study.

Part I:

1. Consider the following economy that is producing onlygoods A (apples) and goods B (bananas). Prices and quantities for 2005 and 2017 are displayed in the following table:

Goods	2005			2017		
	P	Q	P_tQ_t	P	Q	P_tQ_t
A (Apples)	40	125	5,000	60	100	6,000
B(Bananas)	100	50	5,000	80	75	6,000
total			10,000			12,000

   (a) Calculate the Nominal GDP, the Real GDP (using 2005 prices) and the GDP deflator in each year; 2005 = base year

   (b) Calculate the Nominal GDP, the Real GDP (using 2017 prices) and the GDP deflator in each year;

2. Chain-Volume-Measure GDP - CVM. Given the following information, calculate DI, CI and CVM GDP in 2009, 2010, 2011, 2012 and 2013. The base year is 2009.

t	GDP (2009's Price) $\sum_i P_{i,2009}Q_{i,t}$ unit: \$	GDP (2010's Price) $\sum_i P_{i,2010}Q_{i,t}$ unit: \$	GDP (2011's Price) $\sum_i P_{i,2011}Q_{i,t}$ unit: \$	GDP (2012's Price) $\sum_i P_{i,2012}Q_{i,t}$ unit: \$	GDP (2013's Price) $\sum_i P_{i,2013}Q_{i,t}$ unit: \$
2009	201	206	215	225	232
2010	204	212	221	230	234
2011	210	223	224	242	245
2012	220	230	244	262	262
2013	225	235	250	266	272

Part II (True/false/uncertain)

a) Monetary policy is more effective under elastic money demand than under inelastic money demand.

b) Aggregate supply curve is flatter under variable wage model than under fixed wage model.

c) Consumer price index is a fair and unbiased measurement for the cost of living of households.

d) Keynesian government multiplier is always smaller than AS/AD-based government multiplier.

Part III: Essay question.

Question 1 Use the macroeconomic models that we studied in class, and predict the impacts of the Debt-monetizing fiscal expansion, i.e. a budget deficit policy financed by money creations. What would happen to the following key macro variables; output, CPI, real interest rate and nominal interest rate, labor employment, nominal wage and real wage.

Question 2 Within the variable price–fixed wage version of the Keynesian model analyze the effects of an increase in money demand (shift in liquidity preference) due to a loss of confidence in risky stocks and bonds such as occurred in the 2007–09 financial crisis.