

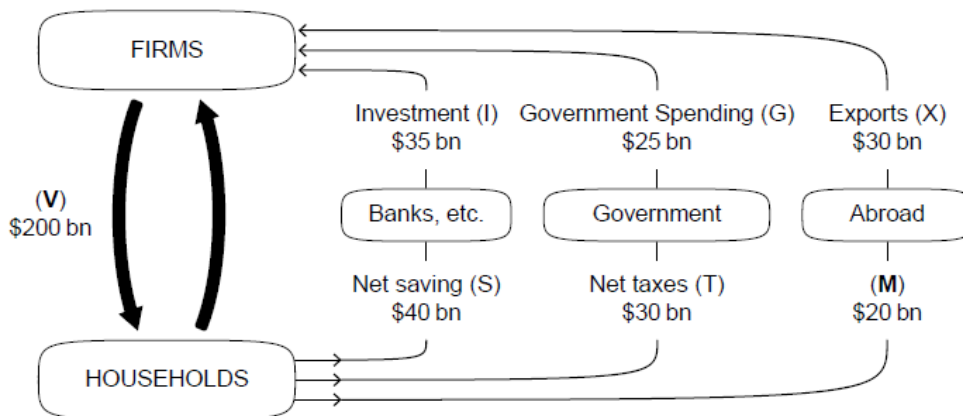
Question 3 Calculate GDP and GNP. You must show your work.

Item	\$ billion
Imports M	289
Transfer payments	253
Saving	82
Exports X	234
Income from employment	1160
Taxation	396
Consumer spending C	745
Investment I	229
Net factor income from abroad	-111
Government spending on goods and services G	437

$$GDP = C + I + G + (X - M) = 745 + 229 + 437 + (234 - 289) = 1356$$

$$GNP = 1356 - 111 = 1245$$

Question 4 Answer the following questions.



4.1 What do the flows (V) and (M) represent?

V = income approach M = Imports

4.2 Does the government run a budget deficit or surplus? By how much?

Surplus by \$5 bn

4.3 Does the country run a trade deficit or surplus? By how much?

Deficit by \$110 bn

4.4 Is the economy in equilibrium? Why or why not?

No because the circular flow getting smaller