Student ID: 6704691555

Question 1 Fill in the blanks. You must show your work.

Year	2014	2015
Nominal gross national income (GNI) ($ billion)	291.53	
Factor income sent abroad ($ billion)	68.30	75.90
Factor income earned abroad ($ billion)	8.13	9.49
Nominal gross domestic product (GDP) ($ billion)		358.97
GDP deflator	100	100.88
Real GDP ($ billion)		

GDP 2014 = GNP - (factor income from abroad - factor income to abroad)
= 291.53 - (68.30 - 8.13)
= 231.36

GNP 2015 = GDP - (factor sent abroad - factor earn abroad)
= 358.97 + (75.9 - 9.49)
= 425.38

Real GDP 2015 = Nominal GDP / Deflator = 358.97 / 1 = 358.97

Question 2 Fill in the blanks. You must show your work.

Year	2012	2013	2014	2015
Consumer price index (CPI)	99.08	100.55	102.51	107.52
Inflation rate (%)	–0.92	1.48	1.95	4.89
Employed (millions)	12.50	12.60	12.85	13.05
Unemployed (millions)	0.99	0.71	0.68	0.61
Population (millions)	20.75	21.48	21.82	22.02
Unemployment rate (%)	7.34	5.33	5.03	4.47

Inflation rate (2014) = (102.51 - 100.55) / 100.55 × 100 = 1.95 ✓

Inflation rate (2015) = (107.52 - 102.51) / 102.51 × 100 = 4.89 ✓

Unemployment rate (2012) = 0.99 / (12.50 + 0.99) × 100 = 7.34 ✓

Unemployment rate (2013) = 0.71 / (12.60 + 0.71) × 100 = 5.33 ✓

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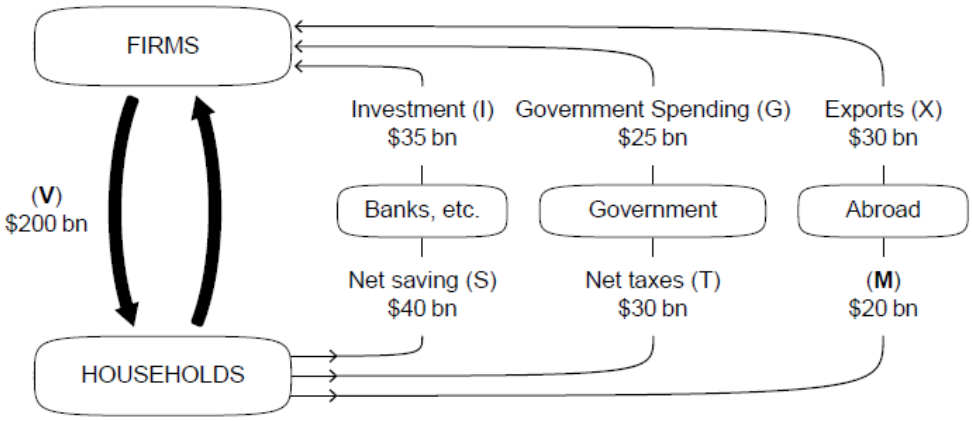
Question 3 Calculate GDP and GNP. You must show your work.

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?

wage rent interest profits M - import

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?

profit by $ 110 bn

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

NO because the circular flow getting smaller

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<u>Question 5</u> Why does CPI tend to be higher than GDP deflator?

Year	Consumer price index (CPI)	GDP deflator	GDP ($ million)
2014	100	100	4465
2015	105.35	105.11	4814
2016	109.21	108.92	5026

CPI tend to be higher than GDP deflator because CPI fixed quantity but price change it make overall CPI have higher than GDP inflator aefect the price of product higher than preuely

key qq - fixed quantity CPI same q.1

price can change overtime

<u>Question 6</u> Answer the following questions.

	Price per unit in dollars ($)	
	2013	2014
Pizza	12.50 x10	12.90 x10
Chocolate milk (litres)	1.15 x100	1.25 x100
Jazz concert	45.00 x10	46.00 x10
Total cost of the typical basket	58.65	60,1

The typical basket of goods purchased by an average consumer consists of 10 pizzas, 100 litres of chocolate milk and 10 jazz concerts.

6.1 With 2013 as the base year, calculate CPI of 2013 and 2014.

CPI in 2013 $= \frac{58.65}{58.65} \times 100 = 100$

CPI 2014 $= \frac{60.1}{58.65} \times 100 = 102.56$

6.2 Calculate the inflation rate of 2014.

Inflation rate of 2014 $= \frac{102.56 - 100}{100} \times 100 = 2.56\%$

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Question 7 Fill in the blanks. You must show your work.

Year	Nominal GDP ($ billions)	GDP deflator	Real GDP ($ billions)	Annual real growth rate (%)	Population	Real GDP per capita ($)
2014	308.12	98.9	311.55		13 273 644	23471.32
2015	321.99	100	321.99	3.35	13 340 012	24137.11
2016	332.65	102.2	325.54	1.04	13 473 412	24152.45

311.55 $ billion / 13 273 644

321.57 $ billion / 13 340 612

325.54 $ billion / 13 473 412

Real GDP(2014) → 98.9 = 308.12 / X × 100 = 311.55

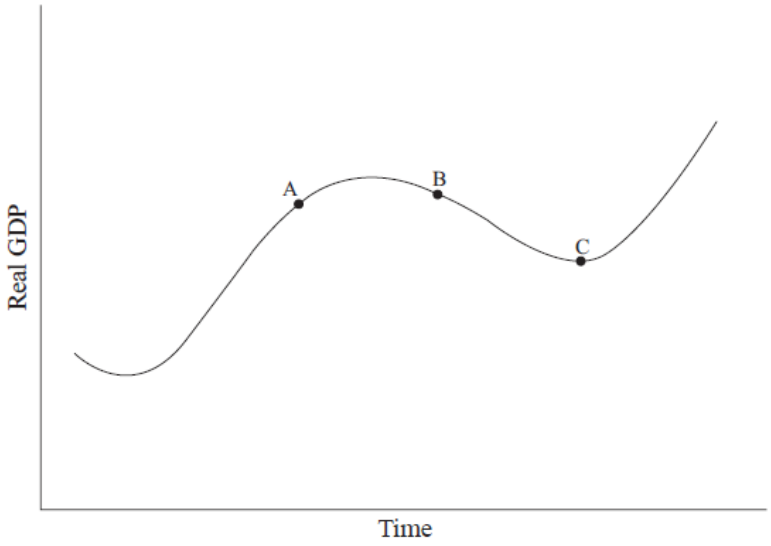
Real GDP (2015) → 100 = 321.99 / X × 100 = 321.99

Real GDP(2016) → 102.2 = 332.65 / X × 100 = 325.54

321.99 − 311.55 / 311.55 × 100 = 3.35

325.54 − 321.99 / 321.99 × 100 = 1.04

Question 8 Based on the data above, which position – A, B, or C – best describes the economy in 2016? Why?



(B) = Recession time → this period the economy down

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Question 9 Answer the following questions.

Country A is a closed economy with no government. The marginal propensity to save in the country is 0.25.

9.1 Calculate the value of the (investment) multiplier.

Closed economy no government MPS = 0.25 MPS + MPC = 1

$\frac{1}{1-MPC} = \frac{1}{1-0.25} = \frac{1}{0.75} = 4$

9.2 Due to the initial investment made by firms and the multiplier effect, the (equilibrium) output in the economy has increased by $200m. Calculate the value of the initial investment.

I_1 = Sensitivity of investment to change income = 4

$\frac{\Delta Y}{\Delta I} = 4$ if Y increased by 1 unit → I increased by 4

if Y increase by 200 units → I increased 800

Country B is an open economy with government.

9.3 Do you think the multiplier effect in Country B will be larger than that of Country A? Why or why not?

country A : C + I I think the multiplier

country B : C + I + G + X - M