

**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

$$GDP = C + I + G + (X - M)$$

$$= 745 + 229 + 437 + (234 - 289)$$

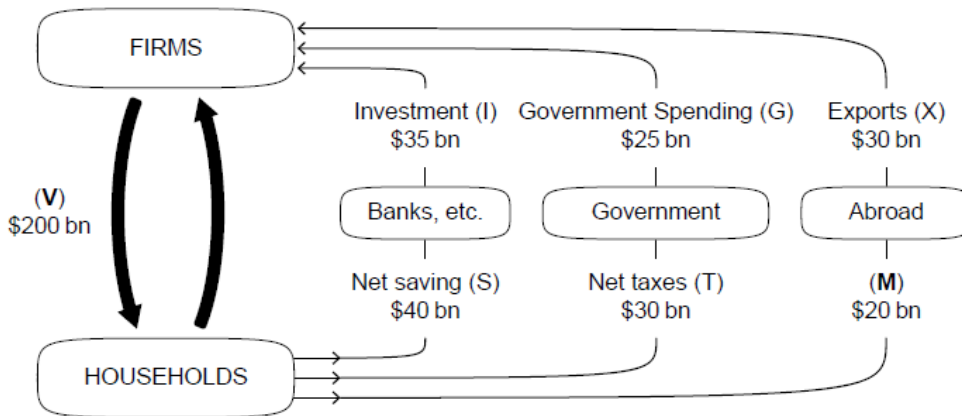
$$= 1356$$

$$GNP = GDP + NFFI$$

$$= 1356 + (-111)$$

$$= 1245$$

**Question 4** Answer the following questions.



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

$$M = \text{Import} \quad V = \text{Income Approach}$$

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

$$\text{Deficit} = G - T = 25 - 30 = -5$$

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

$$\text{Surplus} = X - M = 30 - 20 = 10$$

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

$$MIS = IGX \quad 20 + 30 + 40 = 90 \text{ bn} \quad 35 + 25 + 30 = 90 \text{ bn} \quad \text{equilibrium}$$

Injection equal to leakage