

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment.

- 1) (25 points) Explain the problems caused by high unemployment and explain the problems caused by high inflation. If you were a politician, which would you care more about? Why?
- 2) (20 points) Who gains and who loses from an unexpected decrease in the inflation rate? Explain why those people gain or lose.
- 3) (10 points each) For each event, determine if it is part of GDP. If it is, state which part of GDP and why you chose that part. If it is not, then explain why it is not.
  - A) I hire you to rake my leaves.
  - B) I rake the leaves myself.
  - C) The tuition a foreign student pays Bethany College.
  - D) You buy a used car.
- 4) (15 points) Why should the value added method of calculating GDP yield the same result as the summation of the final goods and services?