

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 and failure to type it will cost you 10 points.

1) (10 points each) For each of these events, determine if it is part of GDP. If it is, then determine which part (C, I, G, or X) and explain why. If it is not, then explain why it is not.

A) You buy a used car for \$5000 directly from the owner.

B) I pay you \$50 to rake my leaves.

C) You buy a Sony (Japanese) CD player for \$100.

D) The government pays your grandparents \$1000 in social security payments.

E) You buy \$10,000 worth of stock in IBM and pay a brokerage fee of \$50.

F) Bethany tears down Campbell Village and rebuilds it correctly for \$1.2 million.

2) (20 points) We often use real GDP per capita as a measure of how well off a country is. However, developing countries complain it is not a good measure of their economy. Explain why their complaint is valid.

3) (10 points each) For each pair of terms, explain how we calculate the latter from the former. What is the economic reason we add and subtract those items.

A) From GDI to NI

B) From NI to PI