

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (20 points) Suppose the price level at the start of the year was 300 and at the end of the year it was 309. Calculate the inflation rate showing all work. If people had expected at the beginning of the year that the inflation rate would be 2%, then who got hurt by the inflation? Explain your logic by mentioning two groups of people who are hurt.

2) (10 points) Fully anticipated inflation hurts almost nobody. Why does it cause almost no damage to the economy?

3) (10 points each) Answer each part in a separate paragraph. For each event, tell me what happened to GDP. Explain your logic. If GDP is changed then tell me whether it is part of C, I, G, or X.

A) The government pays President Obama's salary.

B) I bought \$2000 worth of shares of Ford and paying your broker \$10.

C) You buy a used car for \$800 which cost the used car dealer \$300.

D) I pay you \$100 to rake leaves on my property.

E) The government pays your grandmother \$100 worth of Social Security.

F) Your rich aunt buys a Rolls Royce for \$200,000.

G) Bethany College renovates Campbell Hall.