

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) (35 points) Suppose consumers bought \$1000 worth of goods. Firms built \$400 worth of buildings. The government spent \$600 on salaries of government officials. We exported \$120 worth of goods while importing \$125 worth of goods. Our buildings had \$20 of wear and tear. Corporations paid \$80 in indirect business taxes while paying \$90 of business taxes. The government paid businesses \$30 in subsidies and paid \$100 in Social Security payments. Corporations kept \$10 of retained earnings. We paid \$75 worth of Social Security tax and \$200 of income tax. How much are GDP, NDP, NI, PI, and DPI? Show all work and write in words what you are adding and subtracting. If you need some numbers not provided, assume they are zero.

2) (15 points) Let's suppose that you earn \$50,000 a year. You should have \$1,000,000 saved up by the time you retire. Suppose your savings earns 6%. If you save for 40 years, you will have to save a approximately \$500 per month. If you save for 30 years, you will have to save approximately \$1000/month. There are two reasons why the amount required doubles. What are those two reasons? (Note, this means you should start saving for retirement now.)

3) (10 points each) In economics, we virtually always assume that more GDP is better. However, an increase in GDP has some bad effects. For each of the following, explain how a larger GDP causes the problem and why it is bad.

A) Urban congestion

B) Breakdown of the family

4) (15 points each) The book lists four keys to development. Explain what the term means and how it helps a country to develop.

A) Educated population

B) Limiting protectionism.