Wilf Csaplar Jr.   Economics 302   Homework #2   Due Thursday 2/3

Place your name on the back of this sheet of paper and nowhere else. Staple your answers 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) (15 points) Explain r = (i-π)/(1+π). Make sure you explain both of the reasons why a change in π will cause r to change. (Hint on typing "i": Type i then type any other letter and then a space. Go back and delete the second letter, but do not delete the space. Move your cursor past the space – do not hit a space immediately after deleting the second letter.)

2) (15 points) The US government is currently running a major deficit – 10% of GDP. What does that mean? Using the information in Chapter 2, why is that a potential major problem for the country in the long run?

3) (25 points) Suppose that we purchased 500 hats @ $100/hat in 2009 and 600 hats @ $140/hat in 2010. Suppose we also bought 200 textbooks @ $250/book in 2009 and 120 textbooks at $300/book in 2010. How much was the real GDP in each year if we used 2009 as our base year? Given the method the book uses to calculate the GDP Deflator, what was the GDP Deflator in each year and what was the inflation rate. Show all calculations and BRIEFLY explain what you did.

4) (25 points) Draw the production function with labor on the horizontal axis. Illustrate the effects of an increase in the amount of capital. Explain why the curve moved as drawn.

5) (20 points) Would GNP or GDP be more closely tied to the unemployment rate? Explain your logic. Which would be better for explaining the income of the country? Explain your logic.