Wilf Csaplar Jr.   Economics 162   Homework #5   **Due Friday 3/4**

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.

   If you're missing class on Friday, slide the homework under my door before you leave.

1) (25 points) Suppose at the beginning of the year, the CPI was 800 and people expected inflation would be 10%. At the end of the year, the CPI was 832. What was the actual inflation rate? Show all work. Who was hurt by the actual inflation? Name two groups and explain why they are hurt.

2) (10 points) Why is it wrong to say, "High inflation, even if it was correctly anticipated, hurts consumers because they cannot buy as much."? Explain your logic.

3) (15 points) I said that I feel the unemployment rate at full employment for the USA is about 5.5%. Our current unemployment rate is 4.9%. However, I have said that number is deceiving. The actual rate is closer to 6.5%. My logic is that the labor force participation rate has dropped about 1.7 percentage points too much in the last eight years. (The labor force participation rate decreased about 3 percentage points during that time, but about 1.3 percentage points was caused by people retiring.) What is meant by the statement that the "labor force participation rate has dropped 1.7 percentage points."? What could cause that drop? (Hint: in class, I discussed two problems with the unemployment rate which made it less useful than we would like. This question refers to one of those problems.)

4) (30 points) Use the following information to calculate GDP, NDP, NI, PI, and DPI. **Show all work and briefly state what you are adding and subtracting.** If you need data which is not provided, assume it is zero. Consumers buy $2000 worth of goods. Firms build $500 worth of factories. The government pays $400 in Congressional salaries. We export $100 worth of goods and import $120 worth of goods. Corporations pay $80 worth of sales taxes and $110 worth of business tax. Individuals receive $70 worth of Social Security and pay $330 worth of income tax.

5) (10 points each) For each of the following, explain why GDP does not change in this example. Type each answer in separate paragraphs.
A) You buy $500 worth of Apple stock because you think they will do well in the future.
B) I pay you to shovel my driveway.