

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 10 points. 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) (10 points) What is wrong with the following statement, “The problem caused by high inflation is that people cannot afford to buy what they used to be able to buy.”?
- 2) (20 points) Suppose the year started with a CPI of 800 and an expected inflation rate of 4%. At the end of the year, the CPI was 824. What was the inflation rate? Show all work. Who is helped by this inflation rate? State at least two groups of people and explain how they are helped.
- 3) (10 points) Suppose the nominal interest rate is 21% and the expected inflation rate is 10%. What is the real interest rate? Show all calculations.
- 4) (25 points) Use the following data to calculate GDP, NDP, NI, PI, and DPI. State what you are adding and subtracting and show all work. If you need some data which is missing, assume it is \$0. Consumers buy \$1000. Firms build \$700 worth of buildings. The government pays \$400 in salaries and \$500 in Social Security payments. We export \$300 worth of goods and import \$350 worth of goods. \$70 worth of buildings and machines wear out. Firms pay \$250 in sales tax and \$150 of corporate taxes. The people pay \$450 in income tax.
- 5) (5 points) Explain why we use real GDP rather than nominal GDP to measure how well off a country is.
- 6) (10 points each) Answer each question in a separate paragraph. For each event, tell me what happens to GDP. Explain your logic. If it changes, then tell me which part of GDP and why you chose that.
 - A) I pay you \$50 to mow my lawn.
 - B) You buy a used car from a dealer for \$5000 which cost the dealer \$3000.
 - C) You buy \$800 worth of stock which you think will do well and pay \$10 commission.