

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) (20 points) Suppose at the start of the year, the CPI was 700 and at the end of the year it was 840. Calculate the inflation rate for the year. Show all work. If people had expected 25% inflation, then name two groups of people who are hurt by the inflation. Explain how they are hurt.
- 2) (15 points) How does a fully anticipated inflation hurt the economy? Explain your logic mentioning two costs.
- 3) (15 points) Explain why the income method of calculating GDP should give the same value as the expenditure method of calculating GDP.
- 4) (10 points each) For each of these events tell me how much GDP changed and which part of GDP is affected. Explain how you reached that conclusion including why you chose not to use a number if you did not use it.
 - A) The government sends your grandparents a Social Security check for \$500.
 - B) You buy a used car for \$6000 and it cost the dealer \$3500.
 - C) Bethany College repaired the roof of Richardson not that long ago. Assume it cost \$100,000.
 - D) You buy \$6000 worth of Amazon.com stock and pay \$10 commission.
 - E) A Canadian student pays US\$30,000 tuition here.