

Exon 116b
Problem Set 1

I. Answer True/False/Uncertain. Explain your answers. No credit without explanation.

1. We can look on output and income as the same thing in the models we will be dealing with in this course.
2. If I pay my neighbor's child \$20 to shovel my walk, GDP is increased by \$20.
3. If the stock of inventories in a country in a given year increases, this is an increase in the country's GDP in that year.
4. When unemployment is measured by the Bureau of Labor Statistics, it is only cyclical unemployment that is being measured.
5. When the Yankees are losing, many workers get discouraged, and this is called the "discouraged worker effect."

II.

1. Go to the web site of the Bureau of Economic Analysis, which prepares the national income and product accounts for the United States. It is at www.bea.gov. Click on Gross Domestic Product, then Interactive Tables, then List of All NIPA Tables, and then Table 1.1.6. Compute the percentage change in GDP at an annual rate between 2008 I and 2008 II, and then between 2008 II and 2008 III. Note that residential investment fell from \$596.5 billion in 2006 I to \$353.7 billion in 2008 III. How large a percentage decrease is this overall and then at an annual rate?
2. Now go back one page and click Table 2.1. Look at line 34, and note that the personal saving rate was much higher in 2008 II than it was before. Why might the saving rate have increased in 2008 II?

III.

1. On Friday, January 16, the CPI for December was announced by the Bureau of Labor Statistics at 8:30 am. What was the percentage change at an annual rate, and was this a surprise or not? What did the news media say about this announcement? For example, was this considered to be generally good news, bad news, or neutral news?

IV.

1. The following economy consists of five goods, Beer, Coke, Pizza, Books, and Computers. Compute the percentage change in the price level (i.e., the inflation rate) using first 2005 quantity weights and then 2006 quantity weights. What is nominal GDP in each of the two years? Can you give some intuition as to why the inflation rate is higher in one case than in the other?

Five Good Economy				
	2005	2006	2005	2006
	Prices	Prices	Quantities	Quantities
Beer	5	7	100	75
Coke	4	4	80	100
Pizza	10	15	200	200
Books	13	15	50	50
Computers	20	22	20	25