

Econ 116
Problem Set 1
Due September 12, 2017

I.

1. Explain logically why total output and total income in an economy are the same. What is it in the construction of the data that insures that this is the case?
2. What is meant by double counting in the calculation of GDP?
3. Explain why it is possible for both employment and the unemployment rate to decrease at the same time.
4. Why are transfer payments like social security payments not counted in GDP?
5. Why are stock purchases like buying shares of Google stock not counted in GDP?

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 Begin using the data..., then Section 1, and then Table 1.1.6. Compute the percentage change in GDP at an annual rate between 2016 IV and 2017 I, and then between 2017 I and 2017 II. Show your work.

III.

1. Go to the BLS website, click Database & Tools, Series Report, type in CUSR0000SA0, and click Retrieve data. This is the consumer price index, all items, 1982-84 = 100, seasonally adjusted. The latest data are for July 2017. What has been the inflation rate during the last 12 months from July 2017 back? The 12 months before that from July 2016 back? In which months of the last 24 has there been deflation, and what were the deflation rates in each month at an annual rate?

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 2016 quantity weights and then 2017 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				
	2016	2017	2016	2017
	Prices	Prices	Quantities	Quantities
Beer	5	8	100	75
Coke	4	4	80	100
Pizza	10	15	200	180
Books	13	15	50	50
Computers	20	17	20	25

V.

1. Pick a current issue regarding monetary policy or fiscal policy and briefly discuss what the issue is. You don't have to analyze the issue, just describe what it is. We can analyze it later in the course.