Don’t forget to download a copy of the Homework Cover Sheet. Mark the location where you handed in your work.

**Homework #2; Chapter 2.** This homework has three parts (A, B, C). Each part will be separately graded.

**Part A, HW #2, Ch #2.**

Go to Conceptual Problems, page 47. Write short answers to problems.

1.  
2.a  
2.b  
2.c  
5.  
7. What is the GDP deflator? (Do not answer the remaining question under 7.)

**Part B, HW#2, Ch #2.**

Go to Empirical Problems, page 49. Do the following problems.

1. Submit your filled out table.  
2. Submit your results using the following table.

<table>
<thead>
<tr>
<th></th>
<th>Year 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>ΔRGDP/RGDP</td>
<td></td>
</tr>
<tr>
<td>ΔN/N</td>
<td></td>
</tr>
<tr>
<td>ΔRGDP/RGDP - ΔN/N</td>
<td></td>
</tr>
</tbody>
</table>
Part C, HW#2, CH#2.

MC Quiz, 25 questions, use red score sheet handed out in class or available outside Heady 281 or Heady 167.

We will use the following grading scale.

\[
\begin{align*}
A &= 20+ \\
B &= 19, 18, 17 \\
C &= 16, 15, 14 \\
D &= 13, 12, 11 \\
F &= < 11
\end{align*}
\]

1. Which of the following statements is true?
A) NDP is greater than GDP if prices are falling
B) NDP is greater than GDP if prices are rising
C) NDP can be greater than GDP but only if the economy is growing
D) NDP cannot be greater than GDP
E) NDP must always be greater than GDP

2. Assume you built a new house, bought a used car, and bought some government bonds. Which of the following is true?
A) consumption and government purchases went up since you bought a used car and government bonds
B) consumption and investment went up since you bought a used car and government bonds
C) consumption and investment went up since you bought a used car and built a new house
D) investment went up since you built a new house
E) investment and government purchases went up since you built a new house and bought government bonds

3. Increases in unwanted business inventories are counted as
A) a decrease in the capital stock
B) an increase in consumption
C) an increase in investment
D) an increase in depreciation
E) none of the above

4. If gross investment were zero, which of the following would be true?
A) the existing capital stock would decrease
B) net investment would be negative
C) depreciation would be zero
D) all of the above would be true
E) only A) and B) would be true
5. Depreciation is
A) the difference between gross investment and net investment
B) the difference between GDP and NDP
C) the difference between GNP and NNP
D) another word for capital consumption allowances
E) all of the above

6. Assume nominal GDP increased by 4.2% in the U.S. but by only 3.4% in Germany. We can definitely conclude that
A) the standard of living of the people in the U.S. went up more than the standard of living of the people in Germany
B) real economic growth in the U.S. was higher than in Germany
C) inflation in the U.S. was 0.8% higher than in Germany
D) productivity growth in the U.S. was higher than in Germany
E) none of the above

7. If we counted the value of autoworkers' salaries, wheels, tires, steel, body parts, and final car sales in calculating GDP, then we would be
A) understating GDP by overlooking car dealers' profits
B) ignoring the contribution of capital to output
C) overstating GDP through double counting
D) using the value-added technique for calculating GDP
E) calculating GDP correctly only if we excluded any imported cars

8. In the United States, annual per-capita GDP in 2002 was around
A) $28,000
B) $32,000
C) $36,000
D) $40,000
E) $44,000

9. As defined in our text, private domestic investment (I) does NOT include
A) new residential construction except on farms
B) movable machinery such as trucks or tractors
C) inventory accumulation, unless it was planned or intended
D) investment in labor productivity through education and training
E) new additions to existing factories

10. Assume a U.S. dealer bought 100 TVs from South Korea for $250 each in 2002. He subsequently sold 80 of them in 2003 for $450 each, and the rest in 2003 for $400 each. By how much was the U.S. GDP affected in 2002?
A) $45,000
B) $36,000
C) $19,000
D) $16,000
E) $11,000
11. In a simple economy with no depreciation, no government, and no foreign sector, it is correct to say that for any specified time period (say the month of June)
A) \( Y = C \)
B) \( C - I = S \)
C) \( Y - C = S \)
D) \( Y - C = S + I \)
E) \( Y = C + S - I \)

12. Which of the following identities is FALSE?
A) \( Y \equiv C + I + G + NX \)
B) \( YD \equiv Y - TA + TR \)
C) \( BS \equiv TA - TR - G \)
D) \( I - S \equiv (G - TA + TR) + NX \)
E) \( S + TA - TR \equiv I + G + NX \)

13. Assume that GDP = 8,100, consumption = 5,400, gross private domestic investment = 1,200, government purchases = 1,600. Which of the following is true?
A) imports exceed exports by 100
B) exports exceed imports by 100
C) depreciation is 100
D) the trade surplus is 100
E) both B) and D)

14. If national income is 5,200, disposable income is 4,400, consumption is 4,100, the trade deficit is 110, and the budget deficit is 150, what is the level of private domestic investment?
A) 1,060
B) 540
C) 300
D) 260
E) 40

15. If private domestic saving exceeds private domestic investment by $220 billion and government spending exceeds tax revenue by $340 billion, then
A) the trade deficit is $560 billion
B) the trade surplus is $560 billion
C) the trade deficit is $120 billion
D) the trade surplus is $120 billion
E) the trade deficit is $340 billion
16. If the U.S. budget deficit increased substantially while private domestic saving and private domestic investment remained roughly the same, then
A) the U.S. imported more than it exported
B) the U.S. exported more than it imported
C) the U.S. must have experienced a major recession
D) there must have been a major drop in U.S. interest rates
E) all of the above

17. If private domestic saving in an economy increases, which is the most likely to occur?
A) a decrease in the budget deficit
B) a decrease in net exports
C) an increase in consumption
D) an increase in imports
E) an increase in private domestic investment

18. If we look at the U.S. federal debt as a percentage of GNP over the last century, we realize that
A) it sharply increased in the 1980s but decreased again in the 1990s
B) it has decreased steadily since World War II
C) it has increased steadily since 1960
D) it hasn't ever been lower than 50 percent
E) it has never exceeded 100 percent

19. The budget deficits in the early 1980s were largely financed through
A) an increase in private domestic saving
B) an increase in private domestic investment
C) an increase in net exports
D) a decrease in net exports
E) none of the above

20. Assume there is an increase in the budget surplus. Which of the following is likely to happen?
A) imports will increase more than exports
B) exports will increase more than imports
C) private domestic saving will increase more than private domestic investment
D) private domestic investment will remain the same while private domestic saving will increase
E) private domestic investment will decrease

21. Real GDP is defined as
A) nominal GDP minus depreciation
B) nominal GDP adjusted for changes in population growth
C) nominal GDP adjusted for price changes
D) nominal GDP minus indirect taxes
E) nominal GDP minus interest on the national debt
22. If nominal GDP was $9,200 billion in Year 1 and $9,420 billion in Year 2 and prices increased from Year 1 to Year 2, then
A) real GDP was larger in Year 1 than in Year 2
B) real GDP was larger in Year 2 than in Year 1
C) the GDP-deflator must have been 122
D) the GDP-deflator must have been 102
E) we cannot determine the value of the GDP-deflator or real GDP in Year 2

23. If nominal GDP is $8,820 billion and the GDP-deflator is 105, then real GDP is
A) $9,261 billion
B) $8,925 billion
C) $8,715 billion
D) $8,400 billion
E) $8,000 billion

24. Assume that in 1962 nominal GDP was about $600 billion and real GDP was about $2,400 billion. The GDP-deflator for that year was
A) 1.25
B) 1.4
C) 2.5
D) 4
E) 25

25. If you want a real rate of return of 3% on a financial investment and you expect the annual average inflation rate to be 4.5%, what should be the listed nominal interest rate on this financial security?
A) 7.5%
B) 6.0%
C) 4.5%
D) 3.0%
E) 1.5%