

Name & SID:

Date:

1. Define gross domestic product using the expenditures approach.

2. Define gross domestic product in words.

3. Categorize the following expenditures as (C)onsumption, (I)ntermediate, (G)overnment purchases, (EX)ports, or (IM)ports. All the transactions are done within U.S. borders:
 - a. William buys a new Ford
 - b. William buys a used Ford
 - c. Tamara buys a pink "Made-in-Taiwan" sweatshirt from Macy's
 - d. Brendan sells his used "Dido" CD to William
 - e. William buys an used "New Kids on the Block" CD from Rasputin Music
 - f. Brendan pays his annual tuition to UC Berkeley
 - g. Katy pays her annual tuition to Stanford Law School
 - h. Congress raises welfare benefits to the poor and needy
 - i. Congress funds Iraq's post-war reconstruction by \$87 billion
 - j. State of California buys 10 tons of wood for construction
 - k. Philip Morris buys 50 tons of paper
 - l. Philip Morris raises the salaries of its employees
 - m. Philip Morris hires more employees
 - n. Philip Morris spend \$100 million on "anti-smoking" ads
 - o. Philip Morris buys 200,000 new computers from Dell
 - p. Chinese tourist buys a Hershey's chocolate bar from Safeway

4. Examine the validity of this statement: *The United States has a GDP per capita of \$37,600 and Bermuda has a GDP per capita of \$35,200. Therefore the standard of living between the two countries is about the same.* (GDP per capita from the CIA World Factbook 2003)

5. What is the difference between *structural* and *cyclical* unemployment? Which type of unemployment is worse? Explain.

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6. Calculate inflation. CPI in July 2003 was 183.9 and CPI in August 2003 was 184.6.
(Unadjusted CPI-U on all items from Bureau of Labor Statistics as of September 16, 2003)

7. Does the CPI overstate or understate inflation? Explain.

8. Name one index that measures “price-level”. What is the difference among “prices” and “price-levels”?

9. What are the benefits and costs of inflation? Do *unexpected* increases in inflation help lenders or borrowers, workers or employers? Explain.

10. What is deflation? How can unexpected increases in deflation be as harmful to the economy as unexpected increases in inflation?

11. Does the unemployment rate under-measure or over-measure the jobless problem? Explain.