Practice questions

Investment in a macroeconomic analysis is the money that only the firm spends for the purpose of building capital stocks, such as equipment and facilities. Why is the import subtracted from the export when measuring GDP from the expenditure side? Part of the consumption, investment and government expenditures being made are not only for the domestic goods, but also for the goods that are being made abroad and imported into the nation” We want to take away any component of those three components which are not produced in a nation.

Question 1. (10 points) Suppose that CA-Gyros Technology hired an engineer from Hong Kong in the year 2007, and paid her $100,000 salary in 2007. Give a detailed explanation about how the engineer’s income generation as described above affects GDP and GNP of U.S.

Question 2. (20 points) Consider the following information.

2010 (base year) 2011

Price Quantity Price Quantity

Car $100 400 $120 420

Rice $25 2,000 $36 2,005

2012

Price Quantity

Car $130 450

Rice $38 2,100

1. Compute nominal GDP, real GDP, and the GDP deflator for each year, using 2010 as the base year.
2. Compute the percentage change in nominal GDP, real GDP, and the GDP deflator in 2011 and 2012 from the preceding year.
3. Did economic well-being rise more in 2011 or 2012? Explain.