1. The following table shows nominal GDP and an appropriate price index for a group of selected years. Compute real GDP. Indicate in each calculation whether you are inflating or deflating the nominal GDP data.

| **Year**  | **Nominal GDP Billions,**  | **Price Index (1996 = 100)**  | **Real GDP, Billions**  |
| --- | --- | --- | --- |
| 1960 | $ 527.4 | 22.19 | $\_\_\_\_ |
| 1968 | 911.5 | 26.29 | $\_\_\_\_ |
| 1978 | 2295.9 | 48.22 | $\_\_\_\_ |
| 1988 | 4742.5 | 80.22 | $\_\_\_\_ |
| 1998 | 8790.2 | 103.22 | $\_\_\_\_ |
|  |  |  |  |
|  | Suppose an economy's real GDP is $30,000 in year 1 and $31,200 in year 2. What is the growth rate of its real GDP? Assume that population is 100 in year 1 and 102 in year 2. What is the growth rate of GDP per capita? |  |  |

1. If the CPI was 110 last year and is 121 this year, what is this year's rate of inflation? What is the “rule of 70”? How long would it take for the price level to double if inflation persisted at (*a*) 2, (*b*) 5, and (*c*) 10 percent per year?
2. Graph the accompanying demand data, and then use the midpoint formula for *Ed* to determine price elasticity of demand elasticity of demand for each of the four possible $1 price changes. What can you conclude about the relationship between the slope of a curve and its elasticity? Explain in a nontechnical way why demand is elastic in the northwest segment of the demand curve and inelastic in the southeast segment.

| **Product Price** | **Quality Demanded** |
| --- | --- |
| $5 | 1 |
| 4 | 2 |
| 3 | 3 |
| 2 | 4 |
| 1 | 5 |