

Student: _____

Date: _____

Time: _____

Instructor: Muhammad Rahman
Course: 20101_Econ202_Principles of
Macroeconomics
Book: Case/Fair: Principles of
Macroeconomics 9e

Assignment: Homework_01

1. **Textbook Problem #6** Which of the following are true?

- A. Both microeconomics and macroeconomics deal with same economic issues of inflation, unemployment and growth.
- B. Microeconomics focuses on the determination of the national output, while macroeconomics focuses on the production and output of individual industries.
- C. Macroeconomics is the study of the economy as a whole, while microeconomics deals with the individual decision-making units.
- D. Microeconomics is the study of the economic aggregates, while macroeconomics deals with the functioning of individual industries.

- A. Macroeconomics is different from microeconomics in so many ways that it is impossible for economists to reconcile these two disciplines.
- B. Macroeconomists use microeconomic foundations so as to make macroeconomic analysis consistent with microeconomic postulates.
- C. Macroeconomists are guided by the theory of aggregate behavior, rather than being concerned with the functioning of individual economic units.
- D. Microeconomists are beginning to be influenced by the theory of aggregate behavior rather than the functioning of individual economic units.

Answers C

B

2. During a recession, output , unemployment , and employment .

Answers falls

increases

falls

3. A circular flow diagram shows:

- A. the income received and payments made by each sector of the economy: firms, households, government, and the rest of the world.
- B. the workings of fiscal and monetary policies.
- C. a business cycle.
- D. the intersection of aggregate demand and aggregate supply.

Answer: A

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4. **Textbook Problem #9** In the 1940's, a soda was 6 cents, dinner at a restaurant \$0.95 and house prices were about \$10,000. Based on this information, can we conclude that people were better off then as compared to now?
- A. Yes, since the purchasing power always gets eroded over time.
 - B. No, we need to compare the actual purchasing power of the people in the 1940's with purchasing power of the people today.
 - C. Yes, since people are losing the battle against inflation during the last 60 years.
 - D. Yes, because things were so much cheaper in the 1940's that people were definitely better off.

Answer: B

5. Toyota, a Japan-based company manufactures a Camry automobile in Kentucky, USA and sells it in Japan. This transaction is included in:
- A. Japan's GDP under consumer durables.
 - B. U.S. GDP under exports.
 - C. GDP of both Japan and the U.S. with fifty percent in Japan's GDP unnder consumer durables and fifty percent under U.S. GDP under exports.
 - D. U.S. GDP under imports.

Answer: B

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6. **Textbook Problem #1** [Related to *Economics in Practice: Where Does eBay Get Counted?*] In a simple economy suppose that all income is either compensation of employees or profits. Suppose also that there are no indirect taxes. All data are in billion dollars.

Category	Value
Consumption	5,500.00
Gross Investment	800.00
Depreciation	724.00
Profits	868.80
Exports	600.00
Compensation of Employees	5,647.20
Government Purchases	1,000.00
Direct Taxes	800.00
Saving	216.00
Imports	660.00

Calculate GDP using the Expenditure Approach. \$ billion.

Calculate GDP using the Income Approach. \$ billion.

Definition

Where Does eBay Get Counted?

eBay runs an online marketplace with over 220 million registered users who buy and sell 2.4 billion items a year, ranging from children's toys to oil paintings. In December 2007, one eBay user auctioned off a 1933 Chicago World's Fair pennant. The winning bid was just over \$20.

eBay is traded on the New York Stock Exchange, employs hundreds of people, and has a market value of about \$40 billion. With regard to eBay, what do you think gets counted as part of current GDP?

That 1933 pennant, for example, does not get counted. The production of that pennant was counted back in 1933. The many cartons of K'nex bricks sent from one home to another don't count either. Their value was counted when the bricks were first produced. What about a newly minted Scrabble game? One of the interesting features of eBay is that it has changed from being a market in which individuals market their hand-me-downs to a place that small and even large businesses use as a sales site. The value of the new Scrabble game would be counted as part of this year's GDP if it were produced in the year.

So do any of eBay's services count as part of GDP? eBay's business is to provide a marketplace for exchange. In doing so, it uses labor and capital and creates value. In return for creating this value, eBay charges fees to the sellers that use its site. The value of these fees do enter into GDP. So while the old knickknacks that people sell on eBay do not contribute to current GDP, the cost of finding an interested buyer for those old goods does indeed get counted.

Answers 7,240.00

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6. 7,240.00

(cont.)

7. **Textbook Problem #2** GDP calculated by the *expenditure* approach will be the GDP calculated by the *income* approach, because

- A. the dollar value of the expenditure on new goods and services in a year must be equal to the dollar value of the income generated in that year.
- B. the dollar value of the expenditure on new goods and services in a year is always less than the dollar value of the income generated in that year, since imports are subtracted from the expenditure value.
- C. the national income and the gross domestic product are two different measurements.
- D. of net business transfer payments, indirect taxes minus subsidies and surplus of government enterprises.

Answers equal to

A

8. **Textbook Problem #11** Imports are subtracted in the expenditure approach to calculating GDP, because

- A. consumption, investment, and government spending are understated as these include expenditures on both domestic and foreign goods.
- B. consumption, investment, and government spending are overstated as these include expenditures on both domestic and foreign goods.
- C. U.S. has a negative balance of trade.
- D. the U.S. economy is not open to foreign trade.

Answer: B

9. The following data on capital stock (plant, equipment, housing and inventory) are available for the Republic of Capika for the year of 2005.

Stock of capital on January 1, 2005: \$12,000 billion.

Stock of capital on December 31, 2005: \$12,900 billion.

From this one can conclude that in 2005, the level of net investment = \$ billion.

Answer: 900

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10. We have the following information for an economy. All data are in billion dollars.

Category	Value
Compensation of Employees	6,500.00
Personal Consumption Expenditure	9,225.00
Indirect Taxes minus Subsidies	720.00
Rental Income	650.00
Net Business Transfer Payments	0.00
Corporate Profits	1,100.00
Net Exports	- 400.00
Proprietors' Income	780.00
Surplus of Government Enterprises	0.00
Personal Saving	513.00
Net Interest	500.00

Calculate National Income for this economy.

National Income = \$ billion.

Answer: 10,250.00