

Econ 102- Principles of Macroeconomics
Discussion Section Handout #4

Announcement:

Homework is due on March 2nd no later than 5pm. Drop it in your TA's Mailbox-mailboxes are located on the 7th floor of the Social Science Building.

Key concepts:

Growth, Expansion & Recession. GDP, final good, market value;
Components of GDP: $C + I + G + NX$ (*Expenditure Approach*).
Unemployment; Inflation.

Examples:

1. a.) In 1999, you buy a beautiful vintage 1965 Thunderbird convertible. Would this purchase be included in GDP of 1999?
b.) Suppose GM purchased 10,000 ton of aluminum (worth 7.8m USD) for producing cars. What's GM's contribution for U.S. GDP for this purchase?
c.) Is GDP an accurate measure of a country's well being?
2. If nominal GDP of country A in 2005 is \$11,000 billion and real GDP is \$10,000 billion, then
 - a.) What the GDP price deflator in 2005 would be?
 - b.) If its real GDP in 2004 is 8,000, what is the economic growth rate in 2005?
3. Suppose that the labor force (L) is composed by 100 million people, 5 million of them are unemployed.
 - a.) Additionally, there are 1 million discouraged workers. What would happen to the unemployment rate if all the discouraged workers, try to get a job (so they become part of the labor force) but none of them is able to actually get one?
 - b.) Suppose that you don't know the initial number of discouraged workers (D). However, you know that they all began to look for a job but only half of them found one. You also know that the new unemployment rate is 6%. What was the value of D?
4. Suppose that the CPI is constructed taking into account the prices of two goods, A and B, according to the information presented in the table. You know that the nominal hourly earnings of a worker were \$2 in the first (base) year and \$2.25 in the second one. What happened to the real wage? How would you modify your answer if the worker consumed only good A?

	Year 1 (base)		Year 2
	Price	Quantity	Price
Good A	2	1	2
Good B	1	1	2