

## Econ 20B- Additional Problem Set One

**I. MULTIPLE CHOICES. Choose the one alternative that best completes the statement to answer the question.**

1. Which of the following newspaper headlines would be more closely related to what microeconomists study than to what macroeconomists study?
  - a. Unemployment rate rises from 5 percent to 5.5 percent.
  - b. Real GDP grows by 3.1 percent in the third quarter.
  - c. Retail sales at stores show large gains.
  - d. The price of oranges rises after an early frost.
  
2. For an economy as a whole,
  - a. income is greater than expenditure
  - b. expenditure is greater than income.
  - c. income is equal to expenditure.
  - d. GDP measures income more precisely than it measures expenditure.
  
3. Firms use the money they get from a sale to
  - a. pay wages to workers.
  - b. pay rent to landlords.
  - c. pay profit to the firms' owners.
  - d. All of the above are correct.
  
4. GDP is defined as
  - a. the market value of all goods and services produced within a country in a given period of time.
  - b. the market value of all goods and services produced by the citizens of a country, regardless of where they are living in a given period of time.
  - c. the market value of all final goods and services produced within a country in a given period of time.
  - d. the market value of all final goods and services produced by the citizens of a country, regardless of where they are living, in a given period of time.
  
5. Estimates of the values of which of the following non-market goods or services are included in GDP?
  - a. the value of unpaid housework
  - b. the value of vegetables and other foods that people grow in their gardens
  - c. the estimated rental value of owner-occupied homes
  - d. All of the above are included.

6. Over time, people have come to rely more on market-produced goods and less on goods that they produce for themselves. For example, busy people with high incomes, rather than cleaning their own houses, hire people to clean their houses. By itself, this change has
- caused GDP to fall.
  - not caused any change in GDP.
  - caused GDP to rise.
  - probably changed GDP, but in an uncertain direction; the direction of the change depends on the difference in the quality of the cleaning that has resulted.
7. Grapes are
- always counted as an intermediate good.
  - counted as an intermediate good only if they are used to produce another good such as wine.
  - counted as an intermediate good only if they are consumed.
  - counted as an intermediate good, whether they are used to produce another good or consumed.
8. An Italian company operates a pasta restaurant in the U.S. The profits from this pasta restaurant are included in
- U.S. GNP and Italian GNP.
  - U.S. GDP and Italian GDP.
  - U.S. GDP and Italian GNP.
  - U.S. GNP and Italian GDP.

**Table 23-3**

Prices and Quantities				
Year	Price of Sandwiches	Quantity of Sandwiches	Price of Magazines	Quantity of Magazines
2006	\$4.00	100	\$2.00	180
2007	\$5.00	120	\$2.50	200
2008	\$6.00	150	\$3.50	200

9. Refer to Table 23-3. Nominal GDP for 2007 is
- \$900.
  - \$1,100.
  - \$1,250.
  - \$1,350.

10. **Refer to Table 23-3.** Using 2007 as the base year, for 2006,
- real GDP is \$760 and the GDP deflator is 100.
  - real GDP is \$760 and the GDP deflator is 125.
  - real GDP is \$880 and the GDP deflator is 80.
  - real GDP is \$950 and the GDP deflator is 80.

**II. CALCULATIONS AND EXPLANATIONS. Compute the numbers and provide explanations when necessary.**

11. The island nation of Margaritaville has an economy of three goods: lime, tequila, and cds. In 2005, the individuals on the island produced 100 bushels of limes, 150 bottles of tequila, and 800 cds. The price of these goods were: \$12/bushel of limes, \$20/bottle of tequila, and \$1/cd.

To make the limes and tequila, Margaritaville imported 20 bags of fertilizer that costs \$5/bag.

Using the above data, what was 2005 GDP in Margaritaville? Which method did you use to calculate it?

12. Two companies only, Orange Corp. and Juice Corp. produce all the goods and services sold on Orange Island.

Transactions of Orange Corp. in 2001:

Wages paid to employees	\$15,000
Rent for land	\$10,000
Profits	\$10,000

Sales Revenue:

Oranges sold to public	\$10,000
Oranges sold to Juice Corp.	\$25,000

Transactions of Juice Corp in 2001:

Wages paid to employees	\$5,000
Sales Revenue	\$40,000
Oranges purchased from Orange Corp.	\$25,000
Juice Boxes purchased from abroad	\$10,000

Calculate GDP on Orange Island in 2001 using the production method (make sure to show your work)? Calculate GDP using the expenditure approach. Calculate GDP using the income approach.

13. In Madagascar in 2004 the following stats describe the economy:  
Consumption = \$5,000,000

Investment = \$1,000,000  
Exports= \$ 750,000  
Imports= \$ 1,000,000  
Tax Rebates= \$ 500,000  
Income Tax Reciepts = \$3,500,000  
New Bombs for a War = \$1,500,000  
Social Security Payments = \$1,275,500

What are government purchases? What was 2004 GDP in Madagascar? What method did you use to calculate it?

**III. SHORT ESSAYS. Answer the following questions briefly but concisely.**

14. According to microeconomics what is the theoretical measure of welfare? Why might GDP be a bad measure of overall welfare?