Section II: Macroeconomics- Questions

Chapter 2.1: Measuring National Economic Performance

Question 1

The following are data from the national income accounts of the country of Lakeland for the year 2007 (in million Lkl, the national currency).

Investment spending	300.7
Net income from abroad	−147.4
Government spending	350.3
Income sent abroad	173.2
Exports of goods and services	95.3
Consumption spending	950.9
Income from abroad	25.8
Imports of goods and services	132.4
Green GDP	850.3

a. Calculate Lakeland's gross domestic product (GDP) in 2007.

b. Calculate Lakeland's gross national income (GNI) in 2007.

c. Identify one factor that can account for the difference in Lakeland's GDP and GNI.

d. Lakeland's population in 2007 was 1.2 million. Calculate Lakeland's GDP *per capita* and GNI *per capita* in 2007.

e. Outline two factors that might account for the difference between Lakeland's GDP and its green GDP.

The following data are from Flatland's national accounts (in billion Ftl, the national currency).

Year	2008	2009	2010	2011
Nominal GDP (billion Ftl)	301.5	311.3	309.7	314.0
GDP Deflator	100	104.2	102.7	103.9
Real GDP (billion Ftl)				
Real GDP Growth	-			

f. Outline the difference between nominal GDP and real GDP.

g. Using the information in the table, identify the base year.

h. Calculate real GDP for 2008, 2009, 2010 and 2011.

i. Calculate the rate of growth in real GDP for 2009, 2010 and 2011.

j. For 2010, explain why the fall in nominal GDP was accompanied by an increase in real GDP.

k. Identify a year in which a decrease in real GDP occurred and a year in which a decrease in real GDP growth occurred.

Chapter 2.2: Aggregate Demand & Supply

Question 1

a. Explain verbally (i.e. not using formulae), how the_Keynesian multiplier leads to changes in real GDP.

b. Outline why knowledge of the multiplier could be important to policy-makers.

c. Outline the meaning of leakages (withdrawals) and injections, and describe how they are related to the size of the multiplier.

d. Outline the meaning of a marginal propensity to consume (**MPC**) of 0.75.

e. If the **MPC** in an economy is 0.75, calculate the expected change in real GDP, given an increase in investment spending of £200 million.

f. Outline the meaning of the marginal propensity to save (**MPS**), marginal propensity to tax (**MPT**) and the marginal propensity to import (**MPM**).

g. State the relationship between the **MPC** and the **MPS**, **MPT** and **MPM**.

h. Suppose Riverland has a real GDP of 470 million Rvl. If in Riverland, the *MPS* + *MPT* + *MPM* = 0.25, calculate the new level of real GDP following a decrease in exports of 5 million Rvl.

i. Riverland would like to increase its real GDP by 40 million Rvl and decides to do so through an increase in government spending. Using the information in part (h), calculate the amount by which government spending should increase.

j. Using the Keynesian *AD-AS* model, draw a diagram to show the impact of the multiplier on aggregate_demand and real GDP.

Chapter 2.3: Macroeconomic Objectives I- Low Unemployment & Stable Price Levels

Question 1

The following labour statistics refer to Riverland in 2010.

Population	Labour force	Discourage workers	Underemployed workers	Part-time workers	Full-time workers
4,500,200	2,500,000	250,000	150,000	200,000	1,900,000

a. Define ‘unemployment’.

b. Calculate Riverland’s unemployment rate in 2010.

c. Outline the meaning of ‘discouraged workers’.

d. Outline the meaning of ‘underemployed workers’

Riverland’s basket of goods and services consumed by the average household in the course of a year includes three items (X, Y and Z), as shown below.

Good or Service	Quantity in Basket (weight)	Price per unit (Rvl) 2008	Price per unit (Rvl) 2009	Price per unit (Rvl) 2010	Price per unit (Rvl) 2011
X	3	5	5	6	5
Y	2	3	4	6	5
Z	7	6	7	7	7

e. Calculate the value of the basket in 2008, 2009, 2010 and 2011.

f. Using 2008 as the base year, construct a price index for the period 2008–11.

g. Calculate the rate of inflation/deflation in Riverland in 2008-9, 2009–10 and 2010–11.

h. Distinguish between deflation and disinflation, and identify one year in which each occurred.