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Review

36. how to do PPP GDP and comparing two countries economy.

PPP (Purchase Power Parity): suppose it costs $10 to buy a shirt in the U.S., and it costs €8.00 to buy an identical shirt in Germany. To make an apples-to-apples comparison, we must first convert the €8.00 into U.S. dollars. If the exchange rate was such that the shirt in Germany costs $15.00, the PPP would, therefore, be 15/10, or 1.5. Pez/Pus (relative price)

So, PPP GDP (euro) = EU NGDP * Pez / Pus

PPP GDP (US) = PPP GDP (euro) * US/EURO interest rate

Year	EU NGDP	US/EURO	Pez/Pus	CPI	PPP GDP (euro)	PPP GDP (dollar)
2010	9535	1.33	0.79	0.933	7532.65	10018.4245
2011	9794	1.39	0.78	0.958	7639.32	10618.6548
2012	9835	1.29	0.78	0.982	7671.3	9895.97
2013	9936	1.33	0.76	0.995	7551.36	10043.30
2014	10113	1.33	0.76	1	7685.88	10222.22
2015	10403	1.11	0.77	1	8010.31	8891.44

Seeing the relative price ratio, U.S. has relatively higher cost of living. So, we can see that PPP GDP in euro is lower than EU NGDP. The relative price is pretty stable, so as EU NGDP increases PPP GDP in euro increases. But when the PPP GDP in euro is brought to PPP GDP dollars, it is shrinking. So, we can find out that eurozone economies are shrinking.

I didn't know what was PPP GDP. I looked up on google to calculate the PPP GDP, but I couldn't find it. So, I asked a classmate how to do this. When I compare the two information I have, I'm pretty sure this is the right way. If it's wrong, I want to know the right way.

Multiple choice

16. unexpected inflation

With unanticipated inflation creditors are hurt unless they have an indexed contract, because they get less than they expected in real terms.

Indexed contract: link the value of (prices, wages, or other payments) automatically to the value of a price index. The percentage moves as a market move.

Unexpected inflation makes borrower better off and lender worse off. (what I knew)

I think I knew the concept but not in detail. I got confused because of the "indexed contract" mean. Now, I know clearly, so I'll not wrong next time.

17. basic concept question

Growth rate of economy: g = z * l * L = 1/500 * 1/100 * 10000 = 0.2 ␣ 20 percent.

I should have read the question more carefully.

22. concept question

employment-population = employed / noninstitutionalized population = 148833 / 250801 = 59.34 %

I thought Employment-population ratio = employed / population = 148833 / 321601 = 46.27%

There was no exact answer in the choices, so I chose the closest one. I was not clear with the concept to calculate the employment - population ratio. I thought the population part was total population, but it was non-institutionalized population.

34. knowledge question

Between 1960 and 2000, the employment-population ratio generally was rising. Labor's share GDP was falling, so I thought the employment was falling too. But the fact about it was rising.

35. Quantity theory, MV = PY

Empirically, a large amount of evidence suggests that money neutrality holds in the long run, but changes in money supply can have real effects in the short run.

Money neutrality: neutrality of money is the idea that a change in the stock of money affects only nominal variables in the economy such as prices, wages, and exchange rates, with no effect on real variables, like employment, real GDP, and real consumption. Money neutrality implies that the central bank does not affect the real economy (e.g., the number of jobs, the size of real GDP, the amount of real investment) by creating money. Instead, any increase in the supply of money would be offset by a proportional rise in prices and wages.

I didn't know what is "money neutrality". Also, I was not sure with classical dichotomy. I learned what is classical dichotomy and money neutrality. In Chapter 12, 12.5, the book introduces about the Classical Dichotomy in the Short run. The Classical Dichotomy fails in the short run because of "imperfect information", "costly consumption", "contracts in nominal", bargaining (negotiating) price", "social norms and money illusion". I'll not get wrong if this is in next multiple choice question.

The question I got wrong is mostly about the concept I don't know, or I heard it before but was not cleared in my head. I will make the concepts clear while I'm study and apply it on the test.