

## **Unit 2 Home Learning:**

Part 1: Find the following vocabulary terms from Chapter 7 of the 5 Steps to a 5.

Set 1 Quiz:

B Day: Friday, 9/5

A Day: Monday, 9/8

1. Circular Flow (Draw the circular flow graph)
2. GDP (Include the parts that add up to GDP)
3. Nominal GDP
4. Real GDP (Include the formula for calculating real GDP)
5. Base Year
6. Price Index
7. Consumer Price Index
8. Market Basket
9. Final Goods
10. Intermediate Goods
11. Nonmarket Transactions

Set 2 Quiz:

B Day: 9/11

A Day: 9/12

12. Underground economy
13. Business Cycle (Explain the four parts)
14. GDP Price Deflator
15. Nominal Income
16. Aggregate Income
17. Real Income
18. Expected Inflation
19. Real rate of interest
20. The four types of unemployment (Including the formula for calculating unemployment rate)
21. Labor Force Participation rate (include the equation for labor force)
22. Discouraged Worker
23. Natural Rate of Unemployment.

Part 2: Then answer the following Free Response Questions to the best of your ability.

1.

**OUTPUTS AND PRICES IN GALA LAND**

This Year's Output	This Year's Price
400 loaves of bread	\$6 per loaf
1,000 gallons of water	\$2 per gallon
800 pieces of fruit	\$2 per piece

Gala Land produces three final goods: bread, water, and fruit. The table above shows this year's output and price for each good.

- Calculate this year's nominal gross domestic product (GDP).
- Assume that in Gala Land the GDP deflator (GDP price index) is 100 in the base year and 150 this year. Calculate each of the following.
  - The inflation rate, expressed as a percentage, between the base year and this year
  - This year's real GDP
- Since the base year, workers have received a 20 percent increase in their nominal wages. If workers face the same inflation that you calculated in part (b)(i), what has happened to their real wages? Explain.
- If the GDP deflator in Gala Land increases unexpectedly, would a borrower with a fixed-interest-rate loan be better off or worse off? Explain.

2.

	2009 Quantity	2009 Price (base year)	2010 Quantity	2010 Price
Food	6	\$2.5	8	\$ 2.5
Clothes	5	\$6	10	\$10
Entertainment	2	\$4	5	\$ 5

- The outputs and prices of goods and services in Country X are shown in the table above. Assuming that 2009 is the base year, calculate each of the following.
  - The nominal gross domestic product (GDP) in 2010
  - The real GDP in 2010
- If in one year the price index is 50 and in the next year the price index is 55, what is the rate of inflation from one year to the next?
- Assume that next year's wage rate will be 3 percent higher than this year's because of inflationary expectations. The actual inflation rate is 4 percent. At the beginning of next year, will the real wage be higher, lower, or the same as today?
- Assume that Sara gets a fixed-rate loan from a bank when the expected inflation rate is 3 percent. If the actual inflation rate turns out to be 4 percent, who benefits from the unexpected inflation: Sara, the bank, neither, or both? Explain.

3.

Indicate whether each of the following is counted in the United States gross domestic product for the year 2006. Explain each of your answers.

- (a) The value of a used textbook sold through an online auction in 2006
- (b) Rent paid in 2006 by residents in an apartment building built in 2000
- (c) Commissions earned in 2006 by a stockbroker
- (d) The value of automobiles produced in 2006 entirely in South Korea by a firm fully owned by United States citizens