2. The table provided shows economic data for the country of Louland. The base year is year 1, and the GDP deflator in year 2 is 115.

	Year 1	Year 2
Nominal GDP	800,000	1,035,000
Population	1,000	1,200

(a) Calculate real GDP in Louland in year 2. Show your work.

(b) How would the change in real GDP from year 1 to year 2 affect the demand for money and the nominal interest rate in Louland?

(c) Did the standard of living of the average citizen in Louland increase, decrease, or remain the same from year 1 to year 2 ? Explain using numbers.

(d) What was the numerical value of the inflation rate from year 1 to year 2 ?

(e) If nominal wages increased by 10% from year 1 to year 2, what happened to the real wages of workers in Louland during this time? Explain.

_____

Begin your response to this question at the top of a new page in the separate Free Response booklet and fill in the appropriate circle at the top of each page to indicate the question number.

GO ON TO THE NEXT PAGE.

3. Assume Malaysia's economy is in a recession and its government currently has a balanced budget.

(a) Identify a specific fiscal policy action that the government of Malaysia would implement to address the recession.

(b) How will the fiscal policy action identified in part (a) affect the real interest rate in Malaysia? Explain.

(c) Malaysia and Japan are trading partners with flexible exchange rates. Malaysia's currency is the ringgit (MYR), and Japan's currency is the yen (JPY). Draw a correctly labeled graph of the foreign exchange market for the ringgit relative to the yen. Show the effect of the change in the real interest rate identified in part (b) on the international value of the ringgit.

(d) As a result of the change in the value of the ringgit shown in part (c), will Malaysia's imports increase, decrease, or remain the same? Explain.

_____

Begin your response to this question at the top of a new page in the separate Free Response booklet and fill in the appropriate circle at the top of each page to indicate the question number.

GO ON TO THE NEXT PAGE.

Question 2: Short   5 points

(a)	Calculate real GDP in Louland in year 2 as 900,000 and show your work.	**1 point**

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{GDP Deflator}} \times 100 = \frac{1{,}035{,}000}{115} \times 100 = 900{,}000$$

(b)	State that the demand for money would increase and the nominal interest rate would increase.	**1 point**
(c)	State that the standard of living of the average citizen in Louland decreased from year 1 to year 2 and explain that the real GDP per capita in year 1 was 800 and the real GDP per capita in year 2 was 750.	**1 point**
(d)	State that the inflation rate from year 1 to year 2 was 15%.	**1 point**
(e)	State that real wages decreased and explain that nominal wages increased by less than the inflation rate (10% < 15%).	**1 point**

Total for question 2   5 points