2. The table provided shows the quantity and price of food and clothing, the only two goods produced and consumed in the country of Maltrose, in year 1 and year 2. Assume that year 1 is the base year.

	Year 1 Price	Year 1 Quantity	Year 2 Price	Year 2 Quantity
Food	$10	12	$13	10
Clothing	$5	16	$4	20

(a) Calculate the nominal GDP in year 2. Show your work.

(b) Calculate the GDP deflator in year 2. Show your work.

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

(d) Assuming that the expected inflation rate between years 1 and 2 was 3%, were each of the following better off, worse off, or unaffected as a result of the economic conditions between year 1 and year 2 ?

    (i) People living on a fixed income
    (ii) Borrowers with fixed interest-rate loans. Explain.

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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 that Jamaica has a cyclical unemployment rate of 4% and a balanced capital and financial account (CFA).

(a) Identify a specific fiscal policy action that Jamaica's government would take to bring its economy to full employment.

(b) Based <u>solely</u> on the short-run <u>change in real output</u> resulting from the fiscal policy action identified in part (a), what will happen to Jamaica's net exports? Explain.

(c) Assume that Jamaica and Turkey are trading partners with flexible exchange rates. Jamaica's currency is the Jamaican dollar (JMD), and Turkey's currency is the lira (TRY). Draw a correctly labeled graph of the foreign exchange market for the Jamaican dollar relative to the lira, and show the effect of the change in net exports identified in part (b) on the <u>supply</u> of the Jamaican dollar and the international value of the Jamaican dollar.

(d) How will the change in net exports identified in part (b) affect Jamaica's capital and financial account (CFA)? Explain.

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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.

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Question 2: Short   5 points

(a)	Calculate the nominal GDP in Maltrose in year 2 as $210 and show your work.	**1 point**

$$\text{Nominal GDP}_{\text{Year 2}} = (\$13 \times 10) + (\$4 \times 20) = \$210$$

(b)	Calculate the GDP deflator in Maltrose in year 2 as 105 and show your work.	**1 point**

$$\text{GDP Deflator}_{\text{Year 2}} = \frac{\text{Nominal GDP}_{\text{Year 2}}}{\text{Real GDP}_{\text{Year 2}}} \times 100 = \frac{\$210}{(\$10 \times 10) + (\$5 \times 20)} \times 100 = 105$$

(c)	State that the inflation rate from year 1 to year 2 was 5%.	**1 point**
(d) (i)	State that people living on a fixed income were worse off.	**1 point**
(ii)	State that borrowers with fixed-interest-rate loans were better off because the real value of their debt decreased by more than they expected or because the real interest rate was lower than expected.	**1 point**

Total for part (d)	**2 points**

Total for question 2	**5 points**