

ECON10003 Introductory Macroeconomics Semester 1, 2021

Review Session 1

Thursday 11am – 12pm and 3.15pm – 4.15pm (repeated) face to face class
The Spot-B01 (Copland Theatre), FBE Building. You can attend any one of these two streams.

Questions to be discussed

1. Distinguish between 'final' goods and services and 'intermediate' goods and services.
2. Distinguish between nominal GDP, real GDP index and Chain Volume index.
3. Which of the following transactions would be included in the measurement of GDP?
 - a) The purchase of \$5,000 worth of shares in a company that is listed on the Australian Stock Exchange.
 - b) The purchase of an investment house that was built in the 1960s.
 - c) The payment of a pension by the government to an elderly individual.
 - d) None of the above.
4. Which of the following statements is false:
 - a) Household production, such as the provision of cooking, cleaning and childcare, are not included in GDP since they are not market activities.
 - b) The provision of government services, such as education, are not included in GDP since they are not market activities.
 - c) Transactions related to criminal activities, such as the purchase of illicit drugs, are not included in GDP.
 - d) When GDP is calculated, it does not adjust for the depletion of natural non-renewable resources.
5. Suppose the total market value of all final goods and services produced in a particular country in 2009 is \$500 billion and the total market value of final goods and services sold is \$450 billion. We can conclude that
 - a) GDP in 2009 is \$450 billion.

- b) Intended investment (I), in 2009 is \$50 billion.
 - c) GDP in 2009 is \$500 billion.
 - d) inventories in 2009 fell by \$50 billion.
6. Why do many economists believe that inflation reduces the efficiency with which prices allocate resources?
7. What do we mean by a “real interest rate”? Can a real interest rate be negative? Why or why not?
8. Deflation is a decline in the price level. Economists typically argue that deflation is costly since it discourages consumption and investment. Explain why this is the case.
9. One common view of technology is that it increases productivity. Suppose the development of the microcomputer increased the productivity of labour in the late 20th century. Use a competitive model of the labour market to discuss what effect this change in technology will have upon wages and employment. Explain your reasoning and use a diagram to illustrate these effects.
10. Over a three months period, not everything that is produced is necessarily purchased (i.e., there might be inventories of unsold stock). Yet, economists maintain that in any period, the values of production and expenditure will be the equal. How can this be?
11. Data for an economy shows that unemployment rate is 6%, the participation rate is 60%, 20 million people 15 years or older are not in the labour force. How many people are in the labour force in the economy?

