TUTORIAL 1
(Week 1)

READING GUIDE: REVIEW SECTIONS BOF Ch 1, 2 (2.1-2.4) AS PREPARATION FOR THIS TUTORIAL. YOU SHOULD ALSO LOOK OVER YOUR LECTURES NOTES FOR WEEK 1.

KEY CONCEPTS: MEASUREMENT AND MEANING OF GDP.

SELF-REVIEW OF CONCEPTUAL UNDERSTANDING
These questions are to be attempted before the tutorial. They will **not normally be covered** in the tutorial, except perhaps for a quick review, time permitting. The answers are typically found in the textbook and lecture notes.

1. What are Australia's current rates of unemployment and inflation? (You may have to do a bit of searching for this one - one place to look is the RBA website, http://www.rba.gov.au/statistics/tables/index.html.
2. What is the economic rationale for using prices to value a nation's GDP?
3. What do macroeconomists mean when they describe GDP as a 'flow'?
4. Distinguish between the production, expenditure and income approaches to calculating GDP? Would you expect these approaches to give the same figure for GDP? Explain.
5. Can a nation's real GDP ever be less than its nominal GDP? Explain.

PRACTICE PROBLEMS

1. What is macroeconomics about? How is it different from microeconomics? Why might macroeconomics be relevant to businesses?

2. Consider the following data for two countries.

	Country A	Country B
Household Consumption	100	100
Government Expenditure	100	100
Total Gross Fixed Capital Expenditure	50	150
Changes in Inventories	50	-50
Exports	20	20
Imports	20	20

   a. Calculate GDP for both countries.

   b. Comment on the usefulness of these figures for deciding which, if any, of these two countries is likely to be experiencing an economic recession.

3. An economy produces three goods: cars, computers, and oranges. Quantities and prices per unit for years 2007, 2008 and 2009 are as follows:

	2007		2008		2009	
	Quantity	*Price*	*Quantity*	*Price*	*Quantity*	*Price*
Cars	10	$2,000	12	$3,000	11	$2,500
Computers	4	$1,000	6	$500	5	$750
Oranges	1000	$1	1000	$1	1000	$1

    a. What is nominal GDP in 2007, 2008 and in 2009? By what percentage does nominal GDP change from 2007 to 2008, and 2008 to 2009?

    b. Using the prices for 2007 as the set of common prices, what is real GDP in 2007, 2008 and in 2009? By what percentage does real GDP change from 2007 to 2009 and 2008 to 2009?

    c. Using the prices for 2008 as the set of common prices, what is real GDP in 2007 and in 2008? By what percentage does real GDP change from 2007 to 2008 and 2008 to 2009?

    d. Why are the two output growth rates constructed in (b) and (c) different? Which one is correct? Explain your answer.

4. What are some of the problems associated with using GDP as a measure of economic welfare? Do you think economists are justified in their use of GDP as a measure of economic welfare? Explain.

Go Beyond:

5. Click on the following RBA site, http://www.rba.gov.au/statistics/tables/index.html.

    a. Towards the bottom of the page, look at data on "Output and Labour". Use the GDP and income data, and using column B calculate the growth rate of real GDP between March 2018 and March 2019.

    b. What do you understand by the GDP in 'chain volume measures'?