**Selected Problems - Chapter 21**

**1.2** (a) counted – consumption spending

(b) not counted – used goods

(c) not counted – nonmarket activity

(d) not counted – illegal transaction

(e) not counted – financial transaction

(f) counted – investment spending

(g) the hats are counted – consumption (the feathers are part of the value of the final good)

(h) counted – investment spending

(i) not counted – transfer payment

(j) not counted – financial transaction

(k) not counted – financial transfer

**2.1** Using the expenditure approach: C + I + G + (X − M) = 9,500 + 3,000 + 3,200 + (850 − 900)   
= 15,650.

Using the income approach:

Compensation of employees + Profit + depreciation =11,500 + 2,400 + 1,750 = 15,650.

Recall that depreciation has to be added in because it is taken out in the calculation of profit and we want to get back to “gross domestic product.”

**3.7** The GDP deflator is calculated as (nominal GDP / real GDP) × 100.

The percentage change is calculated as [(value in the second period − value in the first period) / value in the first period] × 100.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Quarter | Nominal GDP | Real GDP | GDP Deflator | Percent Increase in Price Level |
| 2016q1 | 18,325.2 | 16,571.6 | 110.58 | --- |
| 2016q2 | 18,538.0 | 16,663.5 | 111.25 | 0.61% |
| 2016q3 | 18,729.1 | 16,778.1 | 111.63 | 0.34% |
| 2016q4 | 18,905.5 | 16,851.4 | 112.19 | 0.50% |
| 2017q1 | 19,057.7 | 16,903.2 | 112.75 | 0.50% |
| 2017q2 | 19,250.0 | 17,031.1 | 113.03 | 0.025% |
| 2017q3 | 19,500.6 | 17,163.9 | 113.61 | 0.51% |
| 2017q4 | 19,754.1 | 17,286.5 | 114.27 | 0.58% |