

What is the difference between private costs and social costs?

Explain why the federal government funds national defense.

Country A has export sales of \$20 billion, government purchases of \$1,000 billion, business investment is \$50 billion, imports are \$40 billion, and consumption spending is \$2,000 billion. What is the dollar value of GDP?

Explain briefly whether each of the following would cause GDP to overstate or understate the degree of change in the broad standard of living.

- a. The environment becomes dirtier
- b. The crime rate declines
- c. A greater variety of goods become available to consumers
- d. Infant mortality declines

What is the difference between a series of economic data over time measured in nominal terms versus the same data series over time measured in real terms?

What do the growth accounting studies conclude are the determinants of growth? Which is more important, the determinants or how they are combined?

Edna is living in a retirement home where most of her needs are taken care of, but she has some discretionary spending. Based on the basket of goods in [Table 22.5](#), by what percentage does Edna’s cost of living increase between time 1 and time 2?

Items	Quantity	(Time 1) Price	(Time 2) Price
Gifts for grandchildren	12	\$50	\$60
Pizza delivery	24	\$15	\$16
Blouses	6	\$60	\$50
Vacation trips	2	\$400	\$420

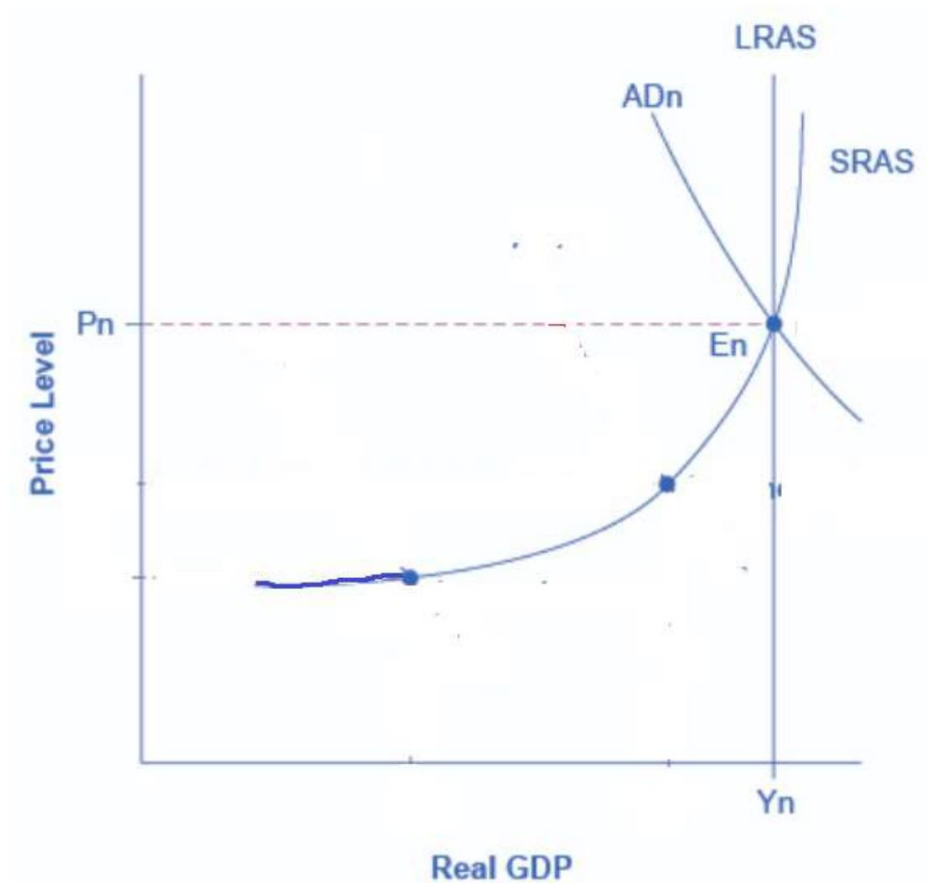
Why does “substitution bias” arise if we calculate the inflation rate based on a fixed basket of goods?

Why does the “quality/new goods bias” arise if we calculate the inflation rate based on a fixed basket of goods?

If inflation rises unexpectedly by 5%, indicate for each of the following whether the economic actor is helped, hurt, or unaffected:

- a. A union member with a COLA wage contract
- b. Someone with a large stash of cash in a safe deposit box
- c. A bank lending money at a fixed rate of interest
- d. A person who is not due to receive a pay raise for another 11 months

- 20.** What is on the horizontal axis of the AD/AS diagram? What is on the vertical axis?
- 21.** What is the economic reason why the SRAS curve slopes up?
- 22.** What are the components of the aggregate demand (AD) curve?
- 23.** What are the economic reasons why the AD curve slopes down?





How do the expansionary and contractionary monetary policy affect the quantity of money?

30. In Japan, one worker can make 5 tons of rubber or 80 radios. In Malaysia, one worker can make 10 tons of rubber or 40 radios.

a. Who has the absolute advantage in the production of rubber or radios? How can you tell?

b. Calculate the opportunity cost of producing 80 additional radios in Japan and in Malaysia. (Your calculation may involve fractions, which is fine.) Which country has a comparative advantage in the production of radios?

c. Calculate the opportunity cost of producing 10 additional tons of rubber in Japan and in Malaysia. Which country has a comparative advantage in producing rubber?

d. In this example, does each country have an absolute advantage and a comparative advantage in the same good?

e. In what product should Japan specialize? In what product should Malaysia specialize?