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PME Assignment.-3

Answers

Q1.

(a) Nominal GDP 2010 = (1 * 100) + (2 * 50) = Rs. 200.
Nominal GDP 2011 = (1 * 200) + (2 * 100) = Rs. 400.
Nominal GDP 2012 = (2 * 200) + (4 * 100) = Rs. 600.

Real GDP 2010 = (1 * 100) + (2 * 50) = Rs. 200
Real GDP 2011 = (1 * 200) + (2 * 100) = Rs. 400
Real GDP 2012 = (1 * 200) + (2 * 100) = Rs. 400

GDP deflator 2010 = 100 * (Nominal GDP / Real GDP)
= 100 * (200/200)
= Rs. 100.

GDP deflator 2011 = 100 * (400/400)
= Rs. 100.

GDP deflator 2012 = 100 * (600/400)
= Rs. 150.

(b) Nominal GDP 2011 = (1 * 200) + (2 * 100) = Rs. 400
Nominal GDP 2012 = (1 * 200) + (4 * 100) = Rs. 600

% change in Nominal GDP = 50 %

⇒ Real GDP 2011 = (1 * 200) + (2 * 100) = Rs. 400
Real GDP 2012 = (1 * 200) + (2 * 100) = Rs. 400

% change in Real GDP = 0 %

⇒ GDP Deflator 2011 = 100 * (400/400)
= Rs. 100

GDP Deflator 2012 = 100 * (600/400)
= Rs. 150.

% change in GDP Deflator = 50 %.

(c) Yes, economic well-being rose from 2011 to 2012, since real GDP rose in 2011 but not in 2012. In 2011 real GDP rose but price did not. In 2012 real GDP didnot rise but price rose.

Q2.

(a) If an auto company owned entirely by German citizens opens a new factory in South Carolina. then this type of forgein investment is known as Forgein Direct Investment. (FDI)

(b) FDI affects the economy.

profits of the buisnesses increase and labor productivity too increases. Per capita income increases and consumption improves. Tax revenues increases and government spending rises. GDP increases and there is also a lagged effect due to which subsequent years GDP too increases.

(c) The auto company owned entirely by German citizens will not be counted in US's GNP. It will be counted under German's GNP. As it doesn't count under US's GNP. Hence it will not affects the US's GNP.

So the US's GNP will be same.

Q3.

given Y = Rs. 8 trillion

T = Rs. 1.5 trillion

Private Saving = Rs. 0.5 trillion

$Y - T - C$ = 0.5 trillion.

public saving = Rs. 0.2 trillion.

$T - G_1$ = Rs. 0.2 trillion.

(a) private saving = Rs. 0.5 trillion

$Y - T - C = 0.5$ trillion

$8 - 1.5 - C = 0.5$ trillion

$C = 8 - 1.5 - 0.5$ trillion

$\boxed{C = \text{Rs. } 6 \text{ trillion.}}$

The consumption is Rs. 6 trillion.

(b) public saving = Rs. 0.2 trillion

$T - G_1$ = Rs. 0.2 trillion

$1.5 - G_1$ = Rs. 0.2 trillion

$G_1 = 1.5 - 0.2$ trillion

$\boxed{G_1 = \text{Rs } 1.3 \text{ trillion}}$

The Government purchase is Rs. 1.3 trillion.

(c) National Saving = Investment (in close economy)

National Saving = Investment = private Saving + public Saving

$= Y - T - C + T - G$

$= Y - C - G$

$= 8 - 6 - 1.3$

$=$ Rs. 0.7 trillion

National Saving = Investment = Rs. 0.7 trillion