Principles of Economics II (Spring 2012)
Homework #5
(Lecture 9-10, due on May 23, 2012, submitted in class)

Note: All textbook problem numbers refer to "Problems and Application" part in corresponding chapter, the 5th international student edition of the textbook.

For Chapter 31

1. Textbook, chapter 31, #1

2. Textbook, chapter 31, #8

Note: Assume price levels in either country unchanged.

3. Textbook, chapter 31, #10

4. Textbook, chapter 31, #12

5. Assume that a typical consumer in China and a typical consumer in the United States buy the quantities and pay the prices indicated in the accompanying table (suppose goods and services are of identical quality in different countries):

	Bread		Car Services	
	Price	Quantity	Price	Quantity
China	2 RMB yuan	400	16 RMB yuan	300
U. S.	$1	1,000	$2	2,000

Suppose one RMB yuan is worth $1/7.

(1) Compute U.S. consumption per capita in dollars, and Chinese consumption per capita in RMB yuan.

(2) Suppose each consumer spends all his/her income on consumption. When a Chinese consumer is going to live in the U.S., he/she exchanges all his/her income in YMB yuan into U.S. dollars. What his/her consumption level (in dollars) will be in the U.S. then? How a Chinese consumer's standard of livings is compared with a typical U.S. consumer, reflected by your calculation?

(3) An alternative way to compare standard of livings among countries is like this: When a Chinese consumer is going to live in the U.S., we try to keep his purchasing-power (rather than nominal income) unchanged, i.e., to make the same bundle of goods he/she consumes in China still available in the U.S.. How much *dollar* income a Chinese consumer would need to keep his/her purchasing power unchanged when he/she lives in the U.S.? How a Chinese consumer's standard of livings is compared with a U.S. consumer, reflected by your new calculation?

(4) Do the two methods of computing standard of livings give the same results? If not, which method do you think is more reasonable?

(5) The purchasing-power parity theory states that a unit of any currency should be able to buy the same quantity of goods in both countries. Does this theory hold between U.S. and China for *bread*'s price data? For *car services*' price data? Why might the assumption underlying the theory of purchasing power parity not hold for some goods?

For Chapter 32

6. Textbook, chapter 32, #2

7. Textbook, chapter 32, #3

8. Textbook, chapter 32 # 4

9. Textbook, chapter 32, #5

10. Textbook, chapter 32, #8

11. Textbook, chapter 32, #11

12. Textbook, chapter 32, #13

13. True or false? Low saving impedes growth in capital, productivity, and living standards for a closed economy, but not for an open economy. You'd better explain by a graph.