Questions for Review

1. Explain why an economy's income must equal its expenditure.

2. Which contributes more to GDP—the production of an economy car or the production of a luxury car? Why?

3. A farmer sells wheat to a baker for Rs20. The baker uses the wheat to make bread, which is sold for Rs30. What is the total contribution of these transactions to GDP?

4. Many years ago, Priya paid Rs5000 to put together a record collection. Today, she sold her albums at a garage sale for Rs100. How does this sale affect current GDP?

5. List the four components of GDP. Give an example of each.

6. Why do economists use real GDP rather than nominal GDP to gauge economic well-being?

7. In the year 2020, the economy produces 100 loaves of bread that sell for Rs20 each. In the year 2021, the economy produces 200 loaves of bread that sell for Rs30 each. Calculate nominal GDP, real GDP, and the GDP deflator for each year. (Use 2020 as the base year.) By what percentage does each of these three statistics rise from one year to the next?

8. Why is it desirable for a country to have a large GDP? Give an example of something that would raise GDP and yet be undesirable.

9. Which do you think has a greater effect on the CPI:
   a 10 percent increase in the price of chicken or a 10 percent increase in the price of caviar? Why?

10. Describe the three problems that make the CPI an imperfect measure of the cost of living.

11. Does an increase in the price of imported French wine affect the CPI or the GDP deflator more? Why?

12. Over a long period of time, the price of a candy bar rose from $0.20 to $1.20. Over the same period, the CPI rose from 150 to 300. Adjusted for overall inflation, how much did the price of the candy bar change?

13. Explain the meanings of *nominal interest rate* and *real interest rate*. How are they related?