Reflection Quiz - Answers

1. GDP is the value of all ____________ produced in a given period.

A. final and intermediate goods and services
B. final goods and services
C. final and intermediate goods and services, plus raw materials
D. goods produced by the private sector only

2. Prices for which of the following are included in the GDP deflator, but not included in the Consumer Price Index?

A. firms' purchases of new equipment
B. intermediate goods and services
C. consumption of goods
D. consumption of services

3. A company spends \$100 million on intermediate goods and \$200 million on wages, with no other expenses, and has total sales of \$800 million. Its value added is 800 - 100 = 700

A. \$200 million B. \$300 million C. \$500 million D. \$700 million

4. Nominal GDP increased this year. From this we know with certainty that

A. real output increased
B. the GDP deflator increased
C. real output and the GDP deflator both increased
D. *either* real output *or* the GDP deflator increased

5. Nominal GDP rises from \$100 trillion to \$120 trillion while the GDP deflator rises ($\frac{\$Y_t}{Y_t}$) from 2.0 to 2.2. Real GDP grew by

A. -10% B. 9.1% C. 10% D. 20%

Real GDP year 1 $= \frac{100}{2} = 50$

Real GDP year 2 $= \frac{120}{2.2} = 54.54$

Change is going to be: $\frac{54.54-50}{50} \times 100 = 9.1$

Approximate: Percentage change in Nominal = 20% and Percentage change in Inflation = 10%

Approx: 20-10 = 10%

6. Suppose a country using the United States' system of calculating official unemployment statistics has 100 million people, of whom 50 million are working age. Of these 50 million, 20 million have jobs. Of the remainder: 10 million are actively searching for jobs; 10 million would like jobs but are not searching; and 10 million do not want jobs at all.

Labor force is (20 + 10 = 30) million

The labor force participation rate is 30/50 = 60%

The official unemployment rate is 10/30 = 33.3%

7. Explain Okun's Law. *It shows the relationship between GDP growth and unemployment rate. If output growth is high, unemployment will decrease.*

8. Explain Phillips Curve. *It shows the negative relationship between inflation rate and unemployment rate. After 1970s, it was redefined as the relationship between the change in the rate of inflation and the unemployment rate.*