

3. (Investment) Given the following data, answer questions a through c.

	Billions of Dollars
New residential construction	\$500
Purchases of existing homes	250
Sales value of newly issued stocks and bonds	600
New physical capital	800
Depreciation	200
Household purchases of new furniture	50
Net change in firms' inventories	100
Production of new intermediate goods	700

- What is the value of gross private domestic investment?
- What is the value of net investment?
- Are any intermediate goods counted in gross investment?

6-2 Trace through the circular flow model, explaining each of the 10 steps along the way

- (Circular Flow Model) First describe in general terms the point of the circular flow model. Next describe the 10 steps along the way.
- (Leakages and Injections) What are the leakages from and injections into the circular flow? How are leakages and injections related in the circular flow?

6-3 Identify the limitations of the national income accounting system

- (National Income Accounts) What relevant aspects of the economy are not reflected in the national income accounting system.
- (Limitations of National Income Accounting) Explain why each of the following should be taken into account when GDP data are used to compare the "level of well-being" in different countries:
 - Population levels
 - The distribution of income
 - The amount of production that takes place outside of markets
 - The length of the average workweek
 - The level of environmental pollution

6-4 Define a price index and explain why is it useful

- (Consumer Price Index) Calculate a new consumer price index for the data in the following exhibit. Assume that current-year prices of Twinkies, fuel oil, and cable TV are \$0.95/package, \$1.25/gallon, and \$15.00/month, respectively. Calculate the current year's cost of the market basket and the value of the current year's price index. What is this year's percentage change in the price level compared to the base year?

Product	(1) Quantity in Market Basket	(2) Prices in Base Year	(3) Cost of Basket in Base Year (3) · (1) · (2)	(4) Prices in Current Year	(5) Cost of Basket in Current Year (5) · (1) · (4)
Twinkies	365 packages	\$ 0.89/package	\$ 324.85	\$ 0.79	\$ 288.35
Fuel oil	500 gallons	1.00/gallon	500.00	1.50	750.00
Cable TV	12 months	30.00/month	360.00	30.00	360.00
			\$1,184.85		\$1,398.35

- (Consumer Price Index) Given the following data, what was the value of the consumer price index in the base year? Calculate the annual rate of consumer price inflation in 2013 in each of the following situations:

- The CPI equals 200 in 2012 and 240 in 2013.
- The CPI equals 150 in 2012 and 175 in 2013.
- The CPI equals 325 in 2012 and 340 in 2013.
- The CPI equals 325 in 2012 and 315 in 2013.

CHAPTER 7

7-1 Describe what the unemployment rate measures, and summarize four sources of unemployment

- (Measuring Unemployment) Determine the impact on each of the following if 2 million formerly unemployed workers decide to return to school full time and stop looking for work:
 - The labor force participation rate
 - The size of the labor force
 - The unemployment rate
- (Measuring Unemployment) Suppose that the U.S. noninstitutional adult population is 230 million and the labor force participation rate is 67 percent.
 - What would be the size of the U.S. labor force?
 - If 85 million adults are not working, what is the unemployment rate?
- (Types of Unemployment) Determine whether each of the following would be considered frictional, structural, seasonal, or cyclical unemployment:
 - A UPS employee who was hired for the Christmas season is laid off after Christmas.
 - A worker is laid off due to reduced aggregate demand in the economy.
 - A worker in a DVD rental store becomes unemployed as video-on-demand cable service becomes more popular.
 - A new college graduate is looking for employment.

7-2 Outline the pros and cons of unemployment insurance

- (Unemployment Insurance) What are the pros and cons of unemployment insurance?
- (The Meaning of Full Employment) When the economy is at full employment, is the unemployment rate at zero percent? Why or why not? How would a more generous unemployment insurance system affect the full employment figure?

7-3 Define inflation and describe the two sources of inflation

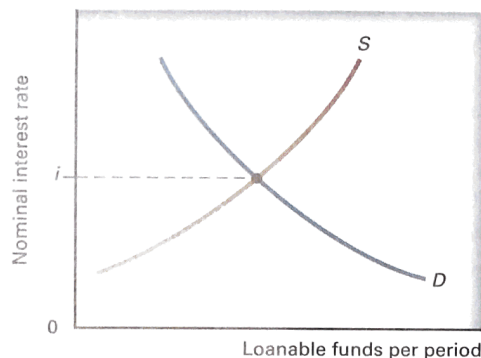
- (Two Sources of Inflation) Using aggregate supply and aggregate demand, demonstrate two sources of inflation.
- (Inflation) Here are some recent data on the U.S. consumer price index:

Year	CPI	Year	CPI	Year	CPI
1992	140.3	1999	166.6	2006	201.6
1993	144.5	2000	172.2	2007	207.3
1994	148.2	2001	177.1	2008	215.3
1995	152.4	2002	179.9	2009	214.5
1996	156.9	2003	184.0	2010	218.1
1997	160.5	2004	188.9	2011	224.9
1998	163.0	2005	195.3	2012	229.6

Compute the inflation rate for each year 1993–2012 and determine which were years of inflation. In which years did deflation occur? In which years did disinflation occur? Was there hyperinflation in any year?

8. (*Sources of Inflation*) Using the concepts of aggregate supply and aggregate demand, explain why inflation usually increases during wartime.
9. (*Inflation and Interest Rates*) Using a demand-supply diagram for loanable funds (like the exhibit below), show what happens to the nominal interest rate and the equilibrium quantity of loans when both borrowers and lenders increase their estimates of the expected inflation rate from 5 percent to 10 percent.

The Market for Loanable Funds



7-4 Explain how unanticipated inflation harms some individuals and harms the economy as a whole

10. (*Anticipated Versus Unanticipated Inflation*) If actual inflation exceeds anticipated inflation, who will lose purchasing power and who will gain? How does unanticipated inflation harm the economy?

CHAPTER 8

8-1 Describe how we measure labor productivity, and explain why it is important for a nation's standard of living

1. (*Measuring Labor Productivity*) How do we measure labor productivity? How do changes in labor productivity affect the U.S. standard of living?
2. (*Growth and the PPF*) Use the production possibilities frontier (PPF) to demonstrate economic growth.
 - a. With consumption goods on one axis and capital goods on the other, show how the combination of goods selected this period affects the PPF in the next period.
 - b. Extend this comparison by choosing a different point on this period's PPF and determining whether that combination leads to more or less growth over the next period.
3. (*Shifts in the PPF*) Terrorist attacks foster instability and may affect productivity over the short and long term. Do you think the September 11, 2001, terrorist attacks on the World Trade Center and the Pentagon affected short- and/or long-term productivity in the United States? Explain your response and show any movements in the PPF.

8-2 Summarize the history of U.S. labor productivity changes since World War II and explain why these changes matter

4. (*Labor Productivity*) Identify at least four definable periods of labor productivity growth beginning right after World War II. During which periods was productivity growth lowest and why? (Refer to Exhibit 6 in the chapter.)
5. (*Long-Term Productivity Growth*) Suppose that two nations start out in 2013 with identical levels of output per work hour—say, \$100 per hour. In the first nation, labor productivity grows by 1 percent per year. In the second, it grows by 2 percent per year. Use a calculator or a spreadsheet to determine how much output per hour each nation will be producing 20 years later, assuming that labor productivity growth rates do not change. Then, determine how much each will be producing per hour 100 years later. What do your results tell you about the effects of small differences in productivity growth rates?

8-3 Evaluate the evidence that technological change increases the unemployment rate

6. (*Technological Change*) Does technological change create unemployment? What's the evidence?
7. (*Technological Change and Unemployment*) What are some examples, other than those given in the chapter, of technological change that has caused unemployment? And what are some examples of new technologies that have created jobs? How do you think you might measure the net impact of technological change on overall employment and GDP in the United States?

CHAPTER 9

9-1 Explain what a consumption function illustrates and interpret its slope

1. (*Consumption*) Use the following data to answer the questions below:

Consumption Real Disposable Income (billions)	Expenditures (billions)	Saving (billions)
\$100	\$150	\$ _____
\$200	\$200	_____
\$300	\$250	_____
\$400	\$300	_____

- a. Graph the consumption function, with consumption spending on the vertical axis and disposable income on the horizontal axis.
 - b. If the consumption function is a straight line, what is its slope?
 - c. Fill in the saving column at each level of income. If the saving function is a straight line, what is its slope?
2. (*MPC and MPS*) If consumption increases by \$12 billion when disposable income increases by \$15 billion, what is the value of the MPC? What is the relationship between the MPC and the MPS? If the MPC increases, what must happen to the MPS? How is the MPC related to the consumption function? How is the MPS related to the saving function?