Name:

QUIZZ 1: Econ 4, Section 2

José-Víctor Ríos-Rull Sept. 21, 2004

Please answer the following 14 questions for 50 points. Be as BRIEF as you can. You have 40 minutes.

1. (9 points) Assume an economy where there are two producers: a wood producer and a chair producer. In a given year, the chair producer makes 25 chairs, of which 5 are sold to the wood producer maker at \$100 each, 10 chairs are sold to Tibet and 5 are stored. The wood producer sells 1000 pounds of wood at \$4 each, 100 of which are sold to the chair producer. Compute GDP in this economy. Compute investment. Compute savings.

- 2. (2 points) Social security taxes are part of National Income. True or False?.
- 3. (3 points) How would NIPA record the earnings of former President Clinton speeches to the Spanish Chamber of Commerce.

4. (5 points) Compare the government's contribution to GDP measured on the production side with its contribution measured on the expenditure side and provide an example of something that belongs in one category and not in the other.

5.	(4 points) Is it possible that a good, say a car, be part of four different components of GDP as measured by the expenditure side? Describe why or why not.
6.	(1 point) What is larger, capital or labor share?
7.	(4 points) Does <i>Rental income of persons</i> include the rent paid to a corporation that owns a building? What about an imputation of the services that a home owner gets from living in his house? Briefly Explain.
8.	(4 points) Could you describe what is the meaning of equilibrium approach and what are the two conditions involved.
9.	(6 points) Raise three objections to the use of GDP per capita as a measure of welfare.

10.	(2 points) Something related to inventories is part of GDP. What exactly and why?
11.	(2 points) What is the difference between Gross Domestic Product (GDP) and Net National Product (NNP)?
12.	(3 points) State one reason why the most popular price indices such as the CPI (Consumer Price Index) or the GDP Deflator mismeasure inflation?
13.	(2 points) What is the difference between a Laspeyres and Paasche price index.
14.	(3 points) What is the GDP Deflator and what type of index is it?