

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (10 points each) For each of the following events, determine how much GDP goes up. If there is a change in GDP, then determine which part of GDP increases. Explain your logic.

A) I pay you \$200 to rake my leaves.

B) I bought 2000 shares of CitiBank at \$1 per share with a commission of \$8.97.

C) Your friend buys \$400 worth of illegal drugs.

D) You buy a used car from a dealer for \$5,000. The dealer had bought it for \$3,000.

2) (15 points) Developing countries complain that real GDP per capita is not a good measure of how much they produce. Why is this a valid criticism? Explain two problems with GDP which fit this situation.

3) (15 points) Other than the problems mentioned in Question #2, explain two other problems with using real GDP per capita as a measure of how well off a country is.

4) (30 points) Suppose that consumers bought \$1000 worth of goods and services, the government bought \$600 worth of goods and services, we imported \$300 worth of goods and exported \$200 worth of goods, firms built \$400 worth of new buildings while old buildings lost \$110 worth of value, firms paid \$100 of sales tax and \$150 of corporate taxes, the government paid out \$350 worth of welfare and Social Security, and we paid \$700 worth of income tax. Use this data to calculate GDP, NDP, NI, PI, and DPI. Show all work and give a one sentence explanation of equation. If some data is not provided, assume it is zero.