

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

1) (30 points) Some economists go so far as to say that anticipated inflation hurts nobody. How can they claim that? What are some costs of anticipated inflation?

2) (20 points) Suppose that people expected inflation to be 5% and it turned out to be 4%. Who loses and who gains? Explain why those people lose and gain respectively.

3) (10 points each) For each event, determine if it is part of the GDP for the USA. If it is, then explain which component it is in. If it is not, then explain why it is not.

A) You buy shares of Microsoft because you think they will do well.

B) The government pays out unemployment benefits.

C) Friends pay you to clean their rooms.

4) (20 points) Why should the expenditure approach ($C + I + G + X$) give the same value for GDP as the income approach (wages + interest payments + rent + profits)?