

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) (15 points) Suppose you expected an inflation rate of 10% but the inflation rate turned out to be 6%. What two groups of people would like this? Explain your logic.
- 2) (10 points) The CPI at the end of last month was 212.174. At the end of January of 2008, it was 212.495. What was the inflation rate over that year period? Show all work.
- 3) (20 points) Why does fully anticipated inflation have few negative consequences? Explain your logic.
- 4) (15 points) What costs do fully anticipated inflation cause for the economy? Explain your logic.
- 5) (10 points each) For each event, determine if it is part of GDP. If it is, then determine which part of GDP (C, I, G, or X) it is in and explain your logic. If not, explain why it is not.
 - A) You buy shares of Ford stock because you think it will do well in the future.
 - B) A foreign student pays his tuition at Bethany College.
 - C) I pay you to shovel snow at my house.
 - D) The government pays unemployment benefits.