

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) Explain why the value added method of calculating GDP should give the same result as the expenditure method.

- 2) (30 points) Use the following data to calculate GDP, NDP, NI, PI, and DPI. If you need data to do the calculation and it is not available, assume it is zero. Show all work and briefly explain what you did. Consumers buy \$1000 worth of goods. Firms built \$500 worth of buildings. The government bought \$600 worth of goods and services and they paid out \$200 worth of welfare and unemployment benefits. We imported \$100 worth of goods and exported \$80 worth of goods. \$50 of capital wore out. We earned \$20 worth of income from abroad and paid \$15 worth of income to foreigners. Our firms paid \$75 worth of indirect business tax and \$80 worth of other taxes. The firms kept \$25 worth of retained earnings. Personal income tax was \$230.

- 3) (15 points) What is meant by “using PPP” and why do we do that to compare GDP per capital across countries?

- 4) (10 points each) For each of the pairs of statistics below, explain how we get from one to the other. Why do we add and/or subtract those particular items?
 - A) NI to PI
 - B) NDP to NI

- 5) (20 points) We use real GDP per capita as a determinant of how well off a country is. What are two problems with doing this? Explain your logic.