

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up 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) (20 points) Suppose that at the beginning of the year the price level was 500 and at the end of the year the price level was 510. What was the inflation rate? Show all work. If people had expected 3% inflation, then who was hurt? Explain your logic mentioning two groups of people hurt and how they were hurt.
- 2) (15 points) Why does high but fully anticipated inflation have almost no negative effects on the economy?
- 3) (15 points) How does high inflation hurt the economy, even if it is fully anticipated? Explain your logic mentioning two costs.
- 4) (10 points each) For each event, tell me what happens to GDP. If GDP changes, then which part of GDP (C, I, G, or X) is affected. Explain your logic. If GDP does not change, tell me why not.
 - A) The government pays the Senate's salaries.
 - B) I pay \$20 you to shovel my driveway.
 - C) Your uncle buys a Rolls Royce for \$120,000.
 - D) Your friend buys \$5000 worth of Google shares of stock and pays a commission of \$10.
 - E) You buy a \$4000 car from a used car dealer which cost the dealer \$2500.