

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 10 points. 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 a year, the CPI was 900 and people were expecting 8% inflation. At the end of the year, the CPI was 963. What was the inflation rate? Show all work. For each of the following people, determine if they are helped or hurt by the inflation rate. Explain your logic. Employees, employers, borrowers, and lenders.

2) (15 points) What are the two costs of fully anticipated inflation? Explain your logic.

3) (10 points each) For each of these events, determine how much GDP changes and which category of GDP changed. Explain why you used or ignored each number and why you chose that part of GDP. Answer each part in separate paragraphs. If you do not, I will take off for not following directions.

A) I pay you \$50 to mow my lawn.

B) You buy a used car for \$3000 which cost the dealer \$1700.

C) You buy \$1000 worth of stock in Amazon.com because you think it will be worth a lot more in the future. You pay \$10 worth of commissions.

D) I recently bought \$30 worth of coasters from Belgium.

E) The government mails your grandparents \$200 worth of Social Security.

4) (15 points) Explain why the value added method of calculating GDP should give the same result as the income method.