

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) (10 points) When the event approved in the following article happens, what will happen to the GDP of the USA? Which part of GDP is affected? Briefly explain both parts of your answer.

<https://abcnews.go.com/Politics/wireStory/us-approves-major-arms-sale-egypt-rights-concerns-82476315>

2) (10 points) What is wrong with the following statement? “When there is high inflation, you cannot afford to buy as much as you could before. That is why high inflation is bad.”

3) (10 points) The current inflation rate is 7.5% and the nominal interest rate on 10-year government bonds is 1.76%. What is the real interest rate on those bonds? Show all work. Do the precise calculation, not the approximation.

<https://www.statista.com/statistics/273418/unadjusted-monthly-inflation-rate-in-the-us/>
https://ycharts.com/indicators/us_10year_government_bond_interest_rate

4) (10 points) Explain why the *value added method* of calculating GDP should give the same result as the *expenditure method*.

5) (15 points each) Answer each part in separate paragraphs or lose points for not following directions. For each event, tell me how much GDP changed and which part of GDP changed. If you did not use a number, briefly tell me why you did not use it.

A) Suppose Bethany College builds a new science building for \$40 million. (Several presidents of the college ago promised a new science building.)

B) President Biden’s paychecks are \$400,000 per year.

C) You buy \$2000 worth of Amazon.com stock and pay \$5 commission.

D) You buy a used car for \$8000, which cost the dealer \$5000.