

CHAPTER 23 AND 24 PROBLEMS

From the McConnell, Brue, and Flynn text:

Chapter 23 - *Questions #3, 5, 8*

Chapter 24 - *Questions #2, 4, 9, 12*  
 and *Problems # 4, 6, 7*

(Important hints for chapter 24 Problem #4: (i) “Consumption of fixed capital” and “Depreciation” are the same thing; (ii) “Gross private domestic investment” is equal to “Net private domestic investment” plus “Depreciation.”)

Plus five additional problems:

(I) List and briefly explain four or more reasons why GDP may not always be an accurate measure of an economy's well-being.

(II) Assume that consumption (C) decreases by \$23 billion, saving (S) increases by \$13 billion, investment (I) decreases by \$17 billion, government purchases (G) increase by \$11 billion, and net taxes (NT) increase by \$41 billion.

Use the three Fundamental Identities of Macroeconomics plus any other relevant identities or definitions to show how much the government budget deficit (GBD) and the trade deficit (TD) must have changed by. Be sure to show all of your calculations.

(III) You are given the following data for Caldonia, an imaginary country:

Year	GDP in 1977 dollars (billions)	GDP in current dollars (billions)	GDP deflator (1977=100)
1930	300	?	25
1960	?	750	85
1977	1500	?	?
1986	?	3000	150

Fill in the missing values, and show how you calculated your answers.

(IV) Prior to 1983, the U.S. government usually had a budget deficit, but the economy as a whole experienced a foreign trade surplus. After 1983, both the government budget and foreign trade account were running deficits.

What does this imply happened to the relative sizes of private saving,  $S$ , and private domestic investment,  $I$ , after 1983? Explain.

(V) Which of the following transactions are included in GDP, and by how much does each raise GDP?

- (a) Smith pays a carpenter \$8000 to build a garage.
- (b) Smith purchases \$2000 worth of materials and builds herself a garage, which is worth \$8000.
- (c) Smith goes to the woods, cuts down a tree, and uses the wood to build herself a garage that is worth \$8000.
- (d) The Jones family sells its old house to the Reynolds family for \$125,000. The Joneses then buy a newly constructed house from a builder for \$180,000.
- (e) UWEC purchases 100 used IBM PCs from Lawrence Univ. for a total of \$150,000.
- (f) UWEC purchases a new multi-user computer from Compaq Computer for \$1,000,000.
- (g) You lose \$500 at a nearby casino.
- (h) You lose \$2500 in the stock market.
- (i) You sell a used economics textbook to your college bookstore for \$20.
- (j) You buy a new economics textbook from your college bookstore for \$40.