

Questions about Macroeconomics to Ponder
ECN150
Spring 2011
Wake Forest University
Instructor: McFall

1. Production levels at Deaconville are shown in the table below. Calculate nominal GDP and real GDP for year 1 and year 2. Did the economy expand or contract from year 1 to year 2?

	Quantity Food	Quantity Shelter	Quantity Clothes	Price Food	Price Shelter	Price Clothes
Year 1	700	110	500	6	150	12
Year 2	710	100	505	6.5	160	13

2. The CPI has a value of 113 for the year 2005, when 2000 is used as the base year. What does this mean? Why would one be somewhat skeptical of this measure?
3. Deaconville's GDP in 2005 was \$1 trillion. In 2010, the economy's nominal GDP was \$1.8 trillion. Why would one want to be skeptical of these measures' ability to portray accurately productivity in a single year in Deaconville? The CPI for 2005 is 88 when 2010 is the base year. What happened to Deaconville's economy between 2005 and 2010? Did it expand or contract? (What is the 2010 CPI value for Deaconville if 2005 is the base year?)
4. Deaconville's treasury department is issuing one year bonds. It is selling \$100 bonds and the market has decided the price of the bond is \$90. At the same time, Blue Devil Hills' one year bonds are being sold for \$92. What is the expected interest rate in both economies? Why might these interest rates be different?