



Chapter 2

Quick Check

1.
 - a. True.
 - b. Uncertain. This is only true in nominal terms. Real GDP increased by a factor of 6 over this period.
 - c. False. When the unemployment rate is high, people often give up looking and thus drop out of the labour force.
 - d. True, but often with a lag, as unemployment continues to rise after the end of a recession.
 - e. False. The level of the CPI means nothing. The rate of change of the CPI is one measure of inflation.
 - f. Uncertain. This question depends on which prices one cares about. The GDP deflator contains many items that consumers do not consume, but broadly measures inflation across the economy. The CPI focuses on the prices paid by consumers, excluding non-consumer goods and services.
 - g. False. While the underground economy and benefits are each factors, the family structure, where the young stay at home, also has a large impact on the high unemployment rate.
2.
 - a. + \$10.
 - b. No change. This transaction is a purchase of intermediate goods.
 - c. If the jet was produced in Australia, this would count towards GDP. Otherwise, it would not.
 - d. + \$1 million.
 - e. No change. Re-selling is not new production.
3.
 - a. \$1 million.
 - b. 1st Stage: \$300 000. 2nd Stage: $\$1\,000\,000 - \$300\,000 = \$700\,000$.
GDP: $\$300\,000 + \$700\,000 = \$1\,000\,000$.
 - c. Wages: $\$200\,000 + \$250\,000 = \$450\,000$.
Profit: $(\$300\,000 - \$200\,000) + (\$1\,000\,000 - \$250\,000 - 300\,000)$
 $= \$100\,000 + \$450\,000 = \$550\,000$.
GDP: $\$450\,000 + \$550\,000 = \$1\,000\,000$.
4.
 - a. $\$25\,000/\$40\,000/\$32\,250$. +60%/-19.4%.
 - b. $\$25\,000/\$31\,000/\$28\,000$. +24%/-9.7%.
 - c. $\$33\,000/\$40\,000/\$36\,500$. +21.2%/-8.8%.
 - d. Each set of calculations used different prices for real GDP; thus, the rates are different. Neither is more correct.

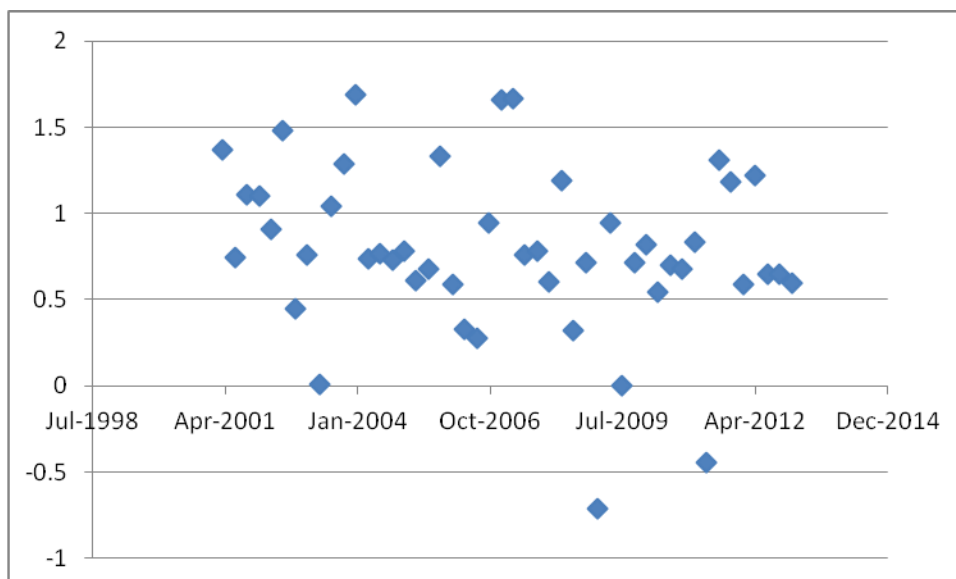
5.
 - a. 1, 1.29, 1.15. 29%, -10.9%.
 - b. 0.76, 1, 0.88. 32%, -12%.
 - c. Analogous to 4d.
6.
 - a. \$29 000 and \$35 500.
 - b. 22.4%.
 - c. 0.86 and 1.13, 31%.
 - d. \$37 750/\$34 375. -8.9%. 1.06 and 0.94. -11.5%.
 - e. \$30 600 and \$35 400.

Dig Deeper

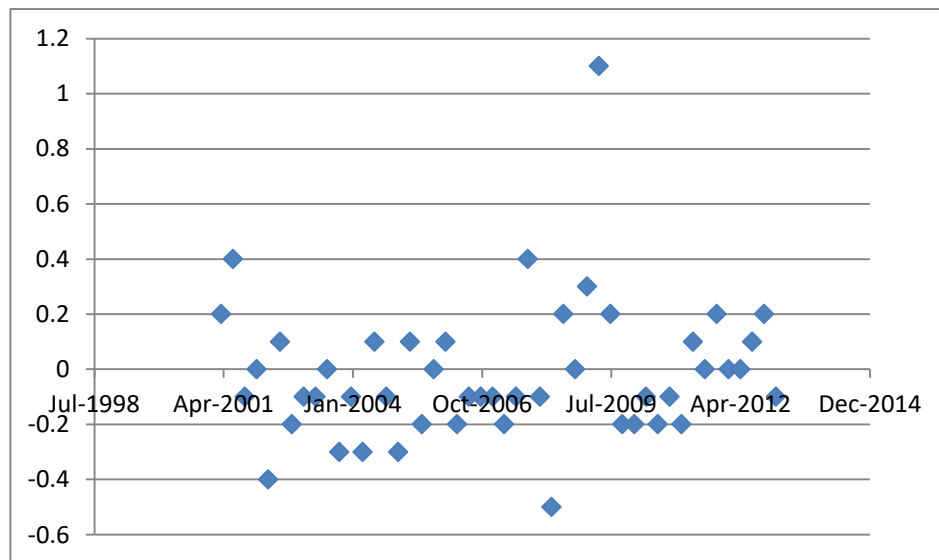
7.
 - a. Answers will vary, but examples include the improved technology, new tests and better tools.
 - b. You need to know the extent that the new ultrasound improves pregnancy check-ups and compare to the increased cost of 20 per cent.
 - c. Exact measurements will take time to collect data on outcomes and accuracy of check-ups using the new ultrasound.
8.
 - a. $\$10 + \$12 = \$22$.
 - b. No. The extra work definitely should be included; however, shifting in-home production of dinner to take-away just changed something unmeasured to measured.

Explore Further

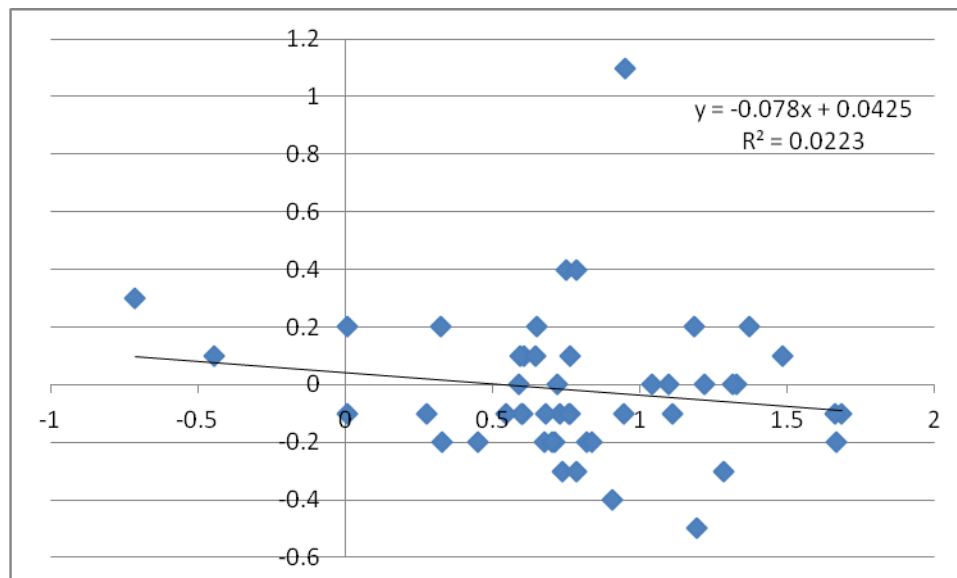
9. Answers will vary with the date the data were accessed.
 - a. RGDP Growth rates.



- b. Change in Unemployment rate.



c. RGDP quarterly change versus quarterly Unemployment rate changes.



d. To reduce the unemployment rate by 0.25 percentage points every quarter of one year, GDP would have to grow by approximately 3.75 per cent quarterly.

$$\begin{aligned}
 \text{Change in unemployment} &= 0.0425 - 0.078 \times \text{Growth rate} \\
 -0.25 &= 0.0425 - 0.078 \times \text{Growth rate} \\
 \text{Growth rate} &= 3.75
 \end{aligned}$$