Name: Zubair Hashimi

Student#: 8882907

Chapter 1:

1 True / False / uncertain:

a) False

Output growth was positive in the developing economies.

b) True

On page 4, Figure 1-1 we can see that the price fell during 2007 to 2010.

c) uncertain

The data of 1960s and early 1970s are not avilable.

d) False

The data Table 1-4 illustrate decrease in unemployment after the European Union created.

e) False

lower interest rates increase the demand for money which will lead to high GDP; high interest rate can slow the inflation not economic growth.

f) True :.

in Europe is :- $36,700 ; in canada is: $51,400

in USA is :- N.A. ; in China is :- $6,100

g) :. uncertain

Question4: a): Yes, Canada has reduced it's budget deficit from -3.9% in 2009 to -1.0 in 2017.

b) Yes, U.S.A has reduced it's budget deficit to -4.6 in 2017 from -13.2 in 2009.

c) Germany has budget surplus.

d)

e):- 1) Norway has the largest budget surplus equals to 6.4% of GDP

2) Egypt has the largest budget deficit equa to -7.3% of GDP

Chapter 2:-

1. True / False / uncertain:

a) False

Table 2-1 indicates that labour income surpasses capital income.

b) uncertain

it's not specified nominal or real GDP.

c) True

Yes, because it shows the ratio of the labour force to the total population of working-age persons.

d) True,

Yes, there is positive relation between growth and unemployment.

e) uncertain:

The CPI does not tell us the inflation rate.

f) uncertain.

Answer 5) a) in 1998

$GDP = 10(2,000) + 4(1000) + 1000(1) = \$ 25,000$

in 1999

$GDP = 12(3,000) + 6(500) + 1000(1) = \$ 40,000$

b) $\text{Real GDP}_{1998} = \$ 25,000$

$\text{Real GDP}_{1999} = 12(2000) + 6(1000) + 1(1000) = \$ 31,000$

Real GDP has increased 24%

The Inflation Rate:-

- Inflation is a sustained rise in the general level of prices, the price level.
- Inflation rate is the rate at which the price level increase.

How to determine price level? two ways:-

- GDP Deflators when nominal GDP increases but real GDP is unchanged then we know it's because of price increase.

$$\text{GDP deflator } (P_t) = \frac{\text{nominal GDP}}{\text{real GDP}} = \frac{\$Y_t}{Y_t}$$

$$\text{Rate of inflation} = \frac{P_t - P_{t-1}}{P_{t-1}}$$

Nominal GDP is equal to the GDP deflator times real

Chapter 2

Answer to Question 5

c) Real GDP_{1998} = 10(3,000) + 4(5000) + 1000(1) = $33,000

Real GDP_{1999} = $40,000

Real GDP increased by 21.2%

d) True.

Answer to question 6.

a) 1998 base year

GDP deflator$_{1998}$ = 100

GDP deflator$_{1999}$ = $\frac{40,000}{31,000}$ = 1.29

Inflation rate = $\frac{1.29 - 1}{1}$ = 0.29 ⇒ 29%

b) 1999 base year

GDP deflator$_{1998}$ = $\frac{25,000}{33,000}$ = 0.76 ⇒ 76 %

GDP deflator$_{1999}$ = 100.

Chapter 3:
1. Questions

a) True
Yes; Table 3-1 indicates that Consumption has the largest component in Canada.

b) False
on table 3-1 it shows that Canadian government spending were 26%.

c) False
Propensity to consume should less than 1 higher than zero.

d) True:
Government spending and taxes are exogenous

e) False
To be in equilibrium production (supply) should equad demand.

f) False
increase in output times the multiplier.

Question 3:-

a) Total demand (Z) = C + I + G2

= 160 + 0.6 (900 - 100) + 150 + 150

= 940

total demand is higer than production by 0.40 this would make companies to produce more of the goods.

b) Total demand = 160 + 0.6 (1000 - 100) + 150 + 150 = 1000

→ total demand = Production, so no effects on increase or decrease of production.

c) Private saving = Y - C - T = 1000 - 160 - 0.6 (900) - 100 = 200

Private saving ≠ investment
(200) (150)

Investment = S + (T - G2)

Public saving = T - G2 = -50

Chapter 3:

Question 4

a) equilibrium output = $1000 \times 0.02 = 20$ units

b) output fall to 2

$$Y = \frac{1}{1-C_1}[I] \qquad C_1 = 0.6$$

$$-20 = \frac{1}{1-0.6}(I)$$

$$I = \frac{-20}{2.5} \Rightarrow I = -8$$

20 unit decrease in production cause 8 unit decrease in investment.

c) To return real GDP to equilibrium government need to increase Investment by 8 unit.

Chapter 3:

Question 5

a) Y increase by the multiplier = $\frac{1}{1-C_1}$

b) Y decreases by the multiplier = $\frac{C_1}{1-C_1}$

c) because taxes impact demand through consumption and spending effects demand directly.

d) $\Delta Y = \frac{1}{(1-C_1)} - \frac{C_1}{1-C_1} = 1$

blanced budget changes in T and G are not considerd macroeconomically neutra

e) The value of the propensity to consume does not have an effect.

~~Because the balance budget~~

Chapter 3e
Answer to Question 7

a) $Y = C_0 + C_1(Y - T) + I + G_2 = Z$

$Y = C_0 + C_1 Y - C_1 T + C_1 t_1 Y + I + G_2$

$Y = \left(\frac{1}{1 - C_1 + C_1 t_1}\right)\left(C_0 - C_1 t_0 + I + G_2\right)$

b) $T = t_0 + t_1 Y$

$T = t_0 + t_1\left[\left(\frac{1}{1 - C_1 + C_1 t_1}\right)\left(C_0 - C_1 t_0 + I + G\right)\right]$

c) Y and T both of them will decrease

d) if Government cuts spending then Y decreases even more. A balanced budget requirement expands of the decline in C