

**Name:**

**Fall 2017**

## **Principles of Macroeconomics**

### **Week 3 - GDP**

1. What is GDP?
2. What is the difference between nominal and real GDP?
3. There are three different ways one can calculate GDP. List and briefly describe the methods.
4. Why is it a problem if we consider the value of goods equivalent to its current prices?
5. What does the GDP deflator do? (hint think inflation and price indices)
6. The nominal GDP for the UK and Germany was 2.7 and 3.75 trillion USD in 2013. If the inflation rate was 2%, and the nominal GDP was 3.0 and 3.9 trillion respectively in 2014, find the real GDP of the two countries in terms of 2013 prices.

7. Write down the formula for the GDP deflator. Why do we consider a basket of goods when making these calculations?
  
  
  
  
  
  
  
  
  
  
8. The GDP is not a perfect measure of well-being. Below are several issues/scenarios that I want you to think about. Explain how they affect GDP and well-being over time.
  - a) The shift towards more women in the workplace (i.e. more women are moving from being homemakers to full-time employees)
  - b) The enormous success of Netflix, Spotify and other streaming services.
  - c) Illegal streaming websites that allow you to watch TV shows, or live sports for free (with some advertisement)
  - d) In the 80s, 21-inch CRT televisions were big machines allowing you to watch up to ten channels at the most and were of relatively poor quality. They also cost \$200. These days you can get a cheap 32-inch HDTV for about the same price.
  - e) A very strong hurricane damages a million homes. The government spends \$100 billion dollars extra repairing the houses this year. Last year, the government spent \$90 billion building new homes.