



Faculty of Commerce, Benha University

National Economic Accounts

Level 4

Course Code:

Economics E423

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Tutorial 2

1. In 2008, Lisa bought a used Cadillac from her local automobile dealer. The Cadillac was originally produced in the year 2000 and sold for \$50,000 to the first owner who bought the car in 2000. The used car dealer bought the car in 2008 for \$5000 from the original owner. Then, the dealer washed and waxed the car right before selling it to Lisa. Which of the following is counted towards GDP in 2008?
 - a) The total price paid by Lisa for the car.
 - b) The original market price of the car.
 - c) The amount the dealer paid the previous owner for the car.
 - d) The value of the wash and wax right before selling the car.
2. Which of the following is an example of a final good or service?
 - a) Paint purchased by Ford; Inc. was used to paint their new fleet of Mustangs.
 - b) Beef is bought by a restaurant owner from a wholesale food distributor.
 - c) A brand-new economics textbook purchased by a UW student.
 - d) Jet Fuel was bought by Northwest Airlines to power its fleet of planes.
3. The University of Chicago, a privately owned school, is currently building a new hospital. This will be classified in U.S. GDP as _____ because _____.
 - a) investment: it increases the capital stock
 - b) consumption: it will provide medical services to consumers
 - c) government purchases: the construction constitutes government expenditure
 - d) net exports: most construction workers are foreigners
4. There is coordination between the Ministry of Planning and Economic Development (MPED), other Ministries, and the Cabinet in Egypt
 - a) True
 - b) False
5. According to the Egyptian National Accounts standard, the GDP measures the value generated by all non-resident units engaged in a productive activity before the deduction of provisions for the consumption of fixed capital
 - a) True
 - b) False



6. "The economists who set up GDP also established a number of rather arbitrary conventions to distinguish between investment and consumption components of GDP. Generally, goods and services purchased by households are treated as consumption expenditures, but _____ purchases are a major exception to this rule and are included in the investment category of GDP." The blank is best filled with new
- automobile
 - housing
 - clothing
 - Food
7. "High demand in this year's economy caught producers unaware, forcing their inventories to absorb this demand." How does this inventory change appear in the GDP calculation when adding up all expenditures?
- it is added when measuring GDP, as an element of investment demand
 - it is added when measuring GDP, as an element of consumption demand
 - it is subtracted when measuring GDP, as an element of investment demand
 - it is subtracted when measuring GDP, as an element of consumption demand
8. That GDP tends to overstate a nation's economic well-being is illustrated by its treatment of which of the following
- you buy a new generator for your barn
 - you decide to stay home to care for your children
 - you decide to work fewer hours to enjoy life more
 - the government spends millions cleaning up after an oil spill
9. "Note that the percent change in the GDP deflator is being used as the measure of inflation rather than the more familiar CPI. The GDP deflator is a price index that samples _____, not just those paid by consumers." The blank should be
- all prices, including imports
 - prices of all domestically-produced goods and services
 - prices of all domestically-produced goods and services except exports
 - prices of all domestically-produced goods and services except those produced by government
10. If in 1992 nominal GDP is 600 and real GDP is 500, then the price index for 1992
- is 100
 - is 120
 - cannot be calculated because we don't know the base year
 - cannot be calculated because we don't know last year's figures
11. The CPI (base year 1987) for 1990 is 120, for 1991 is 125 and for 1992 is 130. If the base year is changed from 1987 to 1992, what does the CPI for 1990 become?



- a) 90 b) 92.3 c) 108.3 d) 110

12. GFCF is The purchase of machinery (including software) and buildings (offices, infrastructure, dwellings) and changes in inventories
 a. True b. False

ANSWER PROBLEMS

13. In the country of Burundi, there are only 3 goods that households consume: food, clothes, and water. To calculate the CPI, the Burundi government uses a basket of goods consisting of 10 million units of water, 5 million units of food, and 2 million units of clothes. You are also given the following additional information (note that in the table the prices are per unit and the quantity is in millions of units).

	Water		Food		Clothes	
Year	Price	Quantity	Price	Quantity	Price	Quantity
Base Year	\$4	10	\$10	2	\$5	5
Current Year	\$5	10	\$12	6	\$10	5

- a) Find the CPI in the base year and the current year using a 100 point scale. Show any general formulas you use and all your work at arriving at your answer. Place your answer in the following table.

	CPI
Base Year	
Current Year	

- b) Calculate the inflation rate between the base year and the current year. Show any general formulas you use and all your work at arriving at your answer.
- c) The inflation rate next year is forecasted to be 5%. Given this, what do forecasters expect the CPI to be? Show how you found your answer to get full credit.



14. Pirateland produces 2 products in their economy: milk & honey. Use the table below to answer the following questions.

Year	Price of Milk	Quantity of Milk Produced	Price of Honey	Quantity of Honey Produced
2015	\$1	100	\$2	50
2016	\$2	200	\$2	100
2017	\$3	300	\$4	100

- Compute the nominal GDP for 2015, 2016 and 2017
 - Using 2015 as a base year, calculate real GDP for 2016 & 2017
- c) What was the GDP Deflator for 2016? What was the inflation rate for 2016?
- d) Was there real economic growth in Pirateland between 2015 and 2017? Why?

15. Outputs and Prices in Mikeland

This Years Output	This Years Prices
200 Pies	\$5
100 Balls	\$4
500 Pumpkins	\$2

- Calculate this years nominal GDP
 - Assume that in Mikeland, the GDP Deflator is 100 in the base year and 120 this year. Calculate the inflation rate expressed as a percentage from the base year to this year
 - Calculate the real GDP
- D) Assume workers in Mikeland have received a 15% increase in their nominal wages this year. If workers face the same inflation rate calculated in part b above, what happens to their real wages?
- d) If the GDP deflator in Mikeland dropped unexpectedly (unexpected deflation), would borrowers who are paying back loans at fixed interest rates be better or worse off? Explain.