

Macro Unit 2 Practice FRQs

FRQ #1

The table below provides data on the spending on final goods, in billions of dollars, by consumers, businesses, and the government in equilibrium in a country with no international trade.

	Value (in billions of dollars) in the base year
Consumption	\$900
Investment spending	\$400
Government spending	\$200
Transfer payments	\$60

The marginal propensity to save is 0.4 and there are no exports or imports.

- (a) Calculate the real GDP in this country. Show your work.
- (b) Calculate the marginal propensity to consume. Show your work.
- (c) Suppose that the government increases spending from \$200 billion to \$300 billion.
 - i Calculate the maximum change in real GDP. Show your work.
 - ii Given the change in real GDP in part (c)(i), calculate the maximum level of the new equilibrium real GDP. Show your work.
- (d) Suppose that taxes decrease by \$100 billion. Will the maximum change in real GDP be larger than, smaller than, or equal to the change in real GDP identified in part (c)(i) ? Explain.

FRQ #2

The table below shows data for Country X. Assume the GDP deflator is 160.

	Value (in millions of dollars)
Consumption spending	\$1,000
Employee compensation	\$1,100
Government spending	\$400
Interest payments	\$125
Investment spending	\$300
Net exports	-\$100
Profits	\$200
Rents	\$175
Savings	\$400

- Calculate the nominal GDP in 2018. Show your work.
- Explain one difference between CPI and the GDP deflator.
- Using the GDP deflator, calculate real GDP for 2018. Show your work.
- Assume that wheat farmers in Country X sold their entire crop of wheat to domestic wheat millers who sold it to domestic bakeries. If the value of the wheat farmers' sales is \$10 million, the value of wheat millers' sales is \$25 million, and the value of bakeries' sales is \$65 million, by how much would Country X's nominal GDP change as a result of this transaction? Explain.