

1. Suppose an economy produces only televisions and computers, and the prices and quantities that prevailed for the last two years were given by:

	2008	
	Price	Quantity
Televisions	\$450	100
Computers	\$950	150

	2009	
	Price	Quantity
Televisions	\$500	120
Computers	\$1000	180

- (a) (8 points) Compute the growth rate of nominal GDP.
- (b) (8 points) Compute the growth rate of real GDP.
- (c) (8 points) Which grew by a larger amount, nominal GDP or real GDP. Explain why.
- (d) (8 points) Describe two problems using real GDP as a measure of the health of the economy.

2. Suppose the Federal Reserve's actions cause an increase in the interest rate in the United States, but there is no change in interest rates among countries in the European Monetary Union.

(a) (8 points) Describe and illustrate the impact of the change in interest rate on the value of the U.S. currency relative to the Euro and the quantity of trade of U.S. dollars for Euros. Provide an explanation for each shift you illustrate (if any).

(b) (8 points) What will be the impact to the sales and revenue for United States firms that export goods to other countries.

3. Suppose there is an increase in people who are not employed that give up looking for jobs because they do not think they will be able to find one.

(a) (8 points) What will be the impact on the unemployment rate? Explain.

(b) (8 points) What will be the impact on the labor force participation rate? Explain.

4. (8 points) Describe two problems using only the unemployment rate as a measure of the health of employment situation in an economy.

5. (8 points) Suppose financial investors expect the U.K. pound sterling to appreciate against the U.S. dollar over the next year. Describe and illustrate the impact on *today's* value of the U.S. currency relative the U.K. pound sterling. Provide an explanation for each shift you illustrate (if any).
6. (8 points) Suppose there is an increase in the preference for Japanese goods among American consumers. Describe and illustrate the impact on value of the U.S. currency relative the Japanese Yen. Provide an explanation for each shift you illustrate (if any).
7. (8 points) Describe two problems using the CPI as a measure of price level to compute inflation. Is there another measure of price level that does not have these problems? Why is the CPI often used anyway?