

Homework 7 – KEY

Average: 73.43 + 2pts GI bonus

Due on 12/3/2024, by 23:00

This assignment is optional but STRONGLY RECOMMENDED. If you do not submit the answers till the deadline, the score of your final exam will substitute for the score for this assignment. Submit only the correct letter for each task on eLearn under 'Quizzes' within 'COR2100-Economics and Society G7-8-9-10'. Note that the actual text of questions and answers is not supposed to appear on the eLearn quiz. You have unlimited attempts. The system is programmed to credit your last attempt. Be informed that if you submit an attempt and afterwards you re-open the quiz, you must submit your answers AGAIN. Otherwise, the system will grade the unfinished attempt with 0 (because it is the last one) and there is NOTHING I can do to fix this after the fact. Late homework or homework submitted outside eLearn cannot be accepted as this would violate SMU official policy for fairness and transparency in grading. This assignment is protected by Grade Insurance™: If the assignment's average turns out to be below 75, an equal amount of bonus points will be given to every work, for the average to become 75. Direct any homework questions to your TA.

- 1[✓] Which of the following is most likely to be the result of emigration of high skilled workforce from Greece to Germany?
- A. Increase in Greece's both "GDP per capita" and "GDP per worker".
 - B. Increase in Greece's "GDP per capita" and decrease in its "GDP per worker".
 - C. Decrease in Greece's "GDP per capita" and increase in its "GDP per worker".
 - 80%D. Decrease in Greece's both "GDP per capita" and "GDP per worker".**
[The emigration of high skilled workforce will cause a large reduction in Greek GDP, which will surpass the decline in the number of citizens/workers]
- 2[✓] Which of the following is most likely to be the result of emigration of high skilled workforce from Greece to Germany?
- 78%A. Increase in Germany's both "GDP per capita" and "GDP per worker".**
 - B. Increase in Germany's "GDP per capita" and decrease in its "GDP per worker".
 - C. Decrease in Germany's "GDP per capita" and increase in its "GDP per worker".
 - D. Decrease in Germany's both "GDP per capita" and "GDP per worker".
[The immigration of high skilled workforce will cause a large increase in Germany's GDP, which will surpass the increase in the number of citizens/workers]
- 3[✓] Which of the following is NOT part of G , according to National Income Accounts?
- A. The funding of scientific research by a government agency.
 - B. The cost of repairing a damaged bridge.
 - 84%C. The taxation collected by the government.** *[This is T and does not have to be included in G]*
 - D. The purchase of an MRI machine by a public hospital.

Table 7.1

Consumption Expenditure	\$400 billion	Transfer Payments	\$60 billion
Government Expenditure	\$250 billion	Taxes	\$300 billion
Corporate Net Profits	\$400 billion	Exports	\$250 billion
Wages and Salaries	\$150 billion	Imports	\$200 billion

- 4.* Refer to table 7.1. How much is the country's GDP?
- A. Around \$550 billion.
 - B. Around \$600 billion.
 - C. Around \$650 billion.
 - 60% D. Around \$700 billion.
 - E. Around \$750 billion.
 - F. Around \$800 billion.
 - 16% G. **Around \$850 billion.**
 - H. Around \$900 billion.
- [Since we do not have information about I, we cannot use the formula $Y = C + I + G + (X - M)$. However, we can use the income method: $Wages \& Salaries + Corporate Net Profits + Taxes = 150 + 400 + 300 = \850 billion]*
5. Which of the following is the most likely reason why a high real GDP overstates the actual citizens' well-being?
- 29% A. Real GDP accounts for negative externalities such as pollution. *[It does not]*
 - 64% B. **Real GDP includes the value of goods and services that are used to repair damage caused by natural disasters.** *[These goods and services just replace pre-existing goods]*
 - C. Real GDP includes the value of goods and services that are used to prevent crime. *[These goods increase human's sense of security, so they indeed have a positive impact in people's well-being]*
 - D. Real GDP accounts for changes in life expectancy. *[Could not be a reason for overstating well-being]*
- 6.√ Which of the following is the most likely reason why a low real GDP understates the actual citizens' well-being?
- 78% A. **GDP does not account for the underground economy.** *[Underground economy is possible to provide extra income and well-being to many citizens]*
 - B. GDP does not account for the depreciation. *[Capital depreciation does not increase well-being]*
 - 16% C. GDP does not account for transfer payments. *[It does account]*
 - D. GDP includes income that comes to the country from citizens living abroad. *[It does not]*
7. Which of the following is considered as a final good?
- A. A house bought by a real estate agency. *[It is an intermediate good since it will become part of the agency's property in order for the latter to offer its services]*
 - 60% B. **An antique car bought by a car collector.** *[It is a good bought by the one who "consumes" it]*
 - 16% C. A sunbed bought by a beach bar. *[It is an intermediate good since it will become part of the beach bar's equipment in order for the latter to offer its services]*
 - 22% D. A new PC bought by a public library. *[It is an intermediate good since it will become part of the library's equipment in order for the latter to offer its services]*

8. Which of the following will not be included in GDP?
- A. The local production of an industrial natural gas pump.
 - B. The local production of a car.
 - C. The production of one hour of massage at a local spa.
 - 21% D. The addition of a new roulette station at the local casino.
 - 72% E. **All of the above will be included in GDP.** *[All of the above are/involve production and will be included in GDP either directly or through other final goods]*
9. Which of the following could be a benefit for a country that includes illegal activities in its GDP?
- A. It increases its tax revenue by taxing those activities.
 - B. It makes its GDP appear higher.
 - C. It makes its debt-to-GDP ratio appear lower.
 - 93% D. **All of the above.** *[As explained in the lecture]*

Scenario 7.1: Greek grape producers produced 150M euros worth of grapes. Greek refineries bought the grapes and produced 500M euros worth of wine. French companies bought the 500M euros worth of wine, bottled it in French bottles sold 300M to wine stores based in France, 300M to wine stores based in Greece and 300M to wine stores based in Spain. Wine store owners in each country sold the wine to their local markets for a net profit of 100%.

10. According to scenario 7.1, GDP of Greece increased by how much?
- A. Around 100M euros.
 - B. Around 200M euros.
 - 12% C. Around 300M euros.
 - D. Around 400M euros.
 - 20% E. Around 500M euros.
 - F. Around 600M euros.
 - G. Around 700M euros.
 - 56% H. **Around 800M euros.**
[Greek GDP has increased by 500M euros worth of wine production, plus the 300M of Greek wine stores' profit or $500 + 300 = 800M$ euros]
11. According to scenario 7.1, GDP of France increased by how much?
- A. Around 100M euros.
 - B. Around 200M euros.
 - C. Around 300M euros.
 - 23% D. Around 400M euros.
 - E. Around 500M euros.
 - F. Around 600M euros.
 - 45% G. **Around 700M euros.**
[French GDP has increased by $900 - 500 = 400M$ euros worth of wine packaging, plus the 300M of French wine stores' profit or $400 + 300 = 700M$ euros]
 - H. Around 800M euros.

12. ✓ According to scenario 7.1, GDP of Spain increased by how much?

- A. Around 100M euros.
- B. Around 200M euros.
- 88% C. **Around 300M euros.**
- D. Around 400M euros.
- E. Around 500M euros.
- F. Around 600M euros.
- G. Around 700M euros.
- H. Around 800M euros.

[Spanish GDP has increased by 300M euros of Spanish wine stores' profit]

Scenario 7.2: A family office in Singapore is owned by a native entrepreneur and has only one additional employee, Aryan, who is from Malaysia.

13. ✓ According to scenario 7.2, if Aryan's salary is fixed and independent of the company's performance, which of the following is accurate?

- A. An increase in firm's profits will increase both Singapore's and Malaysia's GNP.
- 78% B. **An increase in firm's profits will increase only Singapore's GNP.**
- C. An increase in firm's profits will increase only Malaysia's GNP.
- 13% D. An increase in firm's profits will increase neither Singapore's nor Malaysia's GNP.

[The Singaporean entrepreneur's additional profit will increase Singapore's GNP, while Malaysian's GNP will not alter, such as Aryan's income]

14. ✓ According to scenario 7.2, if Aryan's compensation includes a bonus that depends on the company's profitability which of the following is accurate?

- 78% A. **An increase in firm's profits will increase both Singapore's and Malaysia's GNP.**
- B. An increase in firm's profits will increase only Singapore's GNP.
- 16% C. An increase in firm's profits will increase only Malaysia's GNP.
- D. An increase in firm's profits will increase neither Singapore's nor Malaysia's GNP.

[Since the company's profit will be shared between the entrepreneur and the employee, GNP of both countries will increase]

15. ✓ Which of the following should we include when measuring GDP?

- A. Only the total value of goods and services that domestic producers sell to foreign countries.
- B. Only the total value of foreign goods and services that domestic consumers buy.
- 81% C. **The difference between the total value of goods and services that domestic producers sell to foreign countries and the total value of foreign goods and services that domestic consumers buy.**
- 15% D. The sum of the total value of goods and services that domestic producers sell to foreign countries and the total value of foreign goods and services that domestic consumers buy.

[GDP includes the difference between exports and imports]

16. In 2014, Wesley bought a VW golf for \$120k. In 2022, he installed a new custom-made exhaust to the car for \$2,500 at a local shop. The exhaust, the good past maintenance of the car and current COE prices have increased the current value of the car to \$125k. Which of the following is true for 2022 Singapore's GDP, based on this info?

12%A. It was not affected.

72%B. It increased by \$2.5k.

C. It increased by more than \$2.5k and less than \$5k.

D. It increased by \$5k.

E. It increased by \$125k.

[The only transaction that was locally recorded in 2022 was the 2.5k of the exhaust. The alleged increase in the car's value is not recorded in the National Income Accounts]

17. Which of the following is NOT part of *I*, according to National Income Accounts?

A. The purchase of land for future development by a real estate developer. *[This is part of the cost of constructing a new building]*

85%B. The payment of a mortgage by a homeowner. *[The value of the house that the mortgage refers to, has been part of the GDP the year it was constructed]*

C. The expansion of an existing factory by a manufacturing company. *[This is part of construction]*

13%D. An increase in spending on R&D by businesses. *[This is a purchase of a service that will be used by the business in the future to create wealth]*

18. SingAuto LLC sells new cars both to rental car companies and directly to consumers. Which of the following transactions would be registered directly in the National Income Accounts for production?

59%A. The value of a new car sold to a consumer. *[It is a good bought by the one who consumes it]*

B. The value of a new car sold to a rental car company. *[This is considered as purchase of an intermediary good from the company in order to provide its services]*

35%C. Both A and B.

D. None of the above.

19. Which of the following should you use to compare people's prosperity between Venezuela and Cambodia for the last 5 years?

A. Total GDP.

B. Total real GDP.

C. Real GDP growth.

D. GDP per capita.

E. Real GDP per capita.

89%F. Real GDP per capita PPP.

['Real' to remove the effect of inflation; 'per capita' because you need to compare 'peoples' prosperity' and 'PPP' in order to adjust for purchasing power in different countries. See tutorial video 7 for more]

20. Which of the following countries is most likely to have a higher GDP in the future?

A. A country that decreases its consumption expenditure in order to increase its investment expenditure.

B. A country that produces less consumption goods and more capital goods.

C. A country that has a growing workforce.

D. A country that improves its education system.

93%E. All of the above. *[A and B are the same thing. All of those will contribute to more production in the future]*