

## Homework 7 – KEY

Average: 84.48 + Opts GI bonus

Due on 22/10/2024, by 23:00

The tasks in this assignment were designed for the average student to solve independently after mastering the material. The answers provided here are written in an instructional manner to help you understand the problem-solving process for each task. If you continue to struggle with a task after reviewing this key, the difficulty may stem not from the task itself, but from having missed or overlooked some parts of the required material.

- 1<sup>✓</sup> In 2023, Amanda bought a used 2020-Toyota Corolla from a car dealership. Which of the following would be included in the GDP for 2023?
  - A. The price of the car in 2020.
  - B. The price of the car in 2020 minus its depreciation.
  - 20% C. The price Amanda paid for the car in 2023.
  - 76% D. **The commission of the car dealership.**  
*[The value of the car has been counted to GDP of 2020. In 2023, only the service of car dealership was produced]*
  
- 2<sup>✓</sup> Which of the following could decrease nominal GDP but increase real GDP?
  - 98% A. **A fall in prices and an increase in production.** *[Real GDP will increase and, if the fall in prices is sufficient, nominal GDP could decrease]*
  - B. A fall in prices and in production. *[Real GDP will decrease]*
  - C. An increase in prices and a fall in production. *[Real GDP will decrease]*
  - D. An increase in prices and in production. *[Nominal GDP will increase]*
  
- 3<sup>✓</sup> Why do some countries include unlawful activities in their GDP?
  - A. It decreases inequality. *[It does not]*
  - B. It alters citizens' mindset regarding these activities. *[Complete BS!]*
  - 79% C. **It improves the country's credit potential in international bond markets.**
  - 20% D. All of the above.  
*[It improves the debt/GDP ratio showing a better picture for the debt burden of the country]*
  
- 4<sup>✓</sup> A country's real GDP increases but average prosperity worsens. Which of the following could be the reason?
  - 20% A. Inequality. *[More wealth only for the elite]*
  - B. Deterioration of labor rights. *[More wealth for the companies, less for the workers]*
  - C. Increase in taxes. *[More wealth for the government, less for the citizens]*
  - 76% D. **All of the above.**
  
- 5<sup>✓</sup> Giuseppe produces and sells gelato. Which of the following should we subtract from his revenue to calculate the contribution of his production to GDP?
  - A. The salaries he pays to his employees. *[This is the employees' income, not Giuseppe's production]*
  - B. His profit. *[This is Giuseppe's income, not Giuseppe's production]*
  - C. The depreciation of his equipment. *[Not a part of GDP]*
  - D. The rent. *[This is the landlord' income, not Giuseppe's production]*
  - 79% E. **The value of milk he buys to make gelato.** *[This is an intermediate good. It is someone else's production]*
  - F. All of the above.

- 6✓ A large number of high skilled workers immigrate from Italy to Switzerland. Which of the following could happen?
- 17%A. Switzerland's GDP per capita will increase.
  - B. Switzerland's GDP per worker will increase.
  - 79%C. **Both A and B.**
  - D. None of the above.
- [High skilled workers will increase the average productivity in Switzerland, thus increasing both its GDP per capita and its GDP per worker]*
7. Dr. Lee, a professor in SMU, has ordered a Lenovo laptop directly from a Chinese supplier for \$1,000 and free shipping. Which of the following is true for the National Accounts of Singapore?
- 11%A. The transaction does not increase Singapore's GDP.
  - 20%B. The transaction increases  $M$  by \$1,000.
  - C. The transaction increases  $C$  by \$1,000.
  - 67%D. **All of the above.** *[C increased by \$1,000 but this was cancelled out by the \$1,000 increase in M (because M enters the GDP equation with a negative sign). Thus, GDP did not change (as nothing was actually produced in Singapore)]*
- 8✓ Which of the following should happen to a country so that its GDP from the side of expenditure will be lower than the GDP from the side of production?
- A. High inflation.
  - B. Increase in population.
  - C. High interest rates.
  - 94%D. **It is not possible.**
- [GDP is one value that is measured from 3 different alternative perspectives. All of them should yield the same result]*
- 9✓ In 2023, an Australian construction company built \$2B worth of houses. However, due to the shortage in mortgages, only \$1.4B of those houses were sold in 2023, and the remaining \$0.6B were sold in 2024. How much did the company contribute to Australia's GDP in 2023?
- A. Around \$0.6B.
  - B. Around \$1.4B.
  - 93%C. **Around \$2B.** *[In 2023, \$1.4B were registered to I as purchases of housing and another \$0.6B as inventories]*
  - D. Around \$2.6B.
- 10✓ Which of the following will be included in  $I$  in the GDP equation?
- 95%A. **The purchase of an espresso machine by Starbucks.** *[This is the definition of investment (purchase of capital)]*
  - B. The purchase of Bitcoin by an individual. *[Purchase of bitcoin is essentially currency exchange]*
  - C. The purchase of a bond issued by Singapore's government by an individual. *[Purchasing a bond is as if you lend your money to the issuer]*
  - D. All of the above.