SMU
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Homework 7 – KEY

Average: 79.23 + 0pts GI bonus

Due on 18/3/2025, 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. ✓ Which of the following could be a reason why a real GDP understates prosperity?
   - A. GDP does not account for the underground markets. *[Underground markets are possible to provide extra income and prosperity to many citizens]*
   - B. Real GDP does not include barter transactions. *[Since they are not recorded as official transactions, they cannot be counted in GDP even if they have a positive impact in well-being]*
   - 86% C. **Both A and B.**
   - D. None of the above.

2. ✓ The Malaysian government borrows $500M from a bank in Japan. Which of the following will be the result of the loan on Malaysia's GDP?
   - A. It will fall.
   - B. It will increase.
   - 95% C. **It will not be affected.** *[Nothing was produced in Malaysia, only cash changed hands temporarily]*

3. ✓ During 2022, a manufacturer sold to consumers $10M worth of cars produced in 2022 and $3M worth of cars produced in 2021. How much did the manufacturer contribute to the country's GDP in 2022?
   - A. Around $3M.
   - B. Around $7M.
   - 94% C. **Around $10M.**
   - D. Around $13M.

   [Only the $10M was production of 2022. The rest $3M was past year GDP. I decreased by $3M (because the inventories are now $3M less) and C increased by the same $3M because consumers bought those cars]

Scenario 7.1*: Greek olive oil producers produced 100M euros worth of olive oil. Italian refineries bought the olive oil, bottled it in Italian bottles and then sold 300M euros worth of olive oil to supermarkets based in Italy and 200M euros worth of olive oil to supermarkets based in Greece. Supermarket owners in each country sold the olive oil to their local markets for a net profit of 100%.*

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4. According to scenario 7.1, GDP of Greece increased by how much?
   - 33% A. Around 100M euros.
   - 19% B. Around 200M euros.
   - 39% C. **Around 300M euros.**
   - D. Around 400M euros.
   - E. Around 500M euros.
   - F. Around 600M euros.
   - G. Around 700M euros.

   [Greek GDP has increased by $100M$ euros worth of olive oil production, plus the $200M$ of Greek supermarkets' profit. That is, $100 + 200 = 300M$ euros. The 200M euros that Greek supermarkets paid for the bottled oil should not be included because it is an intermediate good]

5. According to scenario 7.1, GDP of Italy increased by how much?

- A. Around 100M euros.
- B. Around 200M euros.
- 14% C. Around 300M euros.
- 14% D. Around 400M euros.
- 25% E. Around 500M euros.
- 15% F. Around 600M euros.
- 31% **G. Around 700M euros.**

  [Italian GDP has increased by refineries' profit of $200 + 300 - 100 = 400M$*, plus the* $300M$ *of Italian supermarkets' profit or* $400 + 300 = 700M$ *euros]*

6.✓ A realtor estimated my house in Athens at 330K euros. After I spent 40K euros on renovations, I invited the realtor again and he re-estimated the house at 420K euros. By how much do all these increase the GDP of Greece?

- A. By around 0 euros.
- 92% **B. By around 40K euros.** *[Only the renovation was actually produced in this story]*
- C. By around 90K euros.
- D. By around 330K euros.
- E. By around 420K euros.
- F. By around 460K euros.

7.✓ Which of the following is likely to increase a country's GDP in the future?

- A. Improving its education system.
- B. Producing less consumption goods and more capital goods.
- 98% **C. Both A and B.**
- D. None of the above.

  [Both education and investment in capital goods would lead to a more productive workforce]

8.✓ Peter helped Billy to paint a flat. Billy charged the landlord $600 for the work and paid Peter $100 for his help. How much GDP has been generated by the paintjob?

- A. Around 0.
- B. Around $100.
- C. Around $500.
- 81% **D. Around $600.**
- 15% E. Around $700.

  [From the side of income, Peter made $100, and Billy made $500; $600 total]

9.✓ Which of the following may cause real GDP to be overinflated?

- 86% **A. A negative externality.** *[A market solution to the externality's problem will increase GDP]*
- B. A positive externality. *[May decrease real GDP]*
- 13% C. Inflation. *[Does not affect real GDP]*
- D. Unemployment. *[May decrease real GDP]*

10.✓ Which of the following is true?

- 11% A. The world map exhibits clusters of poor and wealthy countries.
- B. Flawed democracies tend to be poorer on average.
- C. GDP per worker will always exceed GDP per capita.
- 86% **D. All of the above.**

  [All mentioned during the lecture]