SMU
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Economics & Society
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Homework 7 – KEY

Average: 81.21 + 0pts GI bonus

Due on 17/3/2026, 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 is a part of Malaysia's GDP?

   A. The salary earned by a Malaysian who works in Malaysia.
   B. The salary earned by a Singaporean who works in Malaysia.
   C. The profit of an Indonesian company that operates in Malaysia.
   98% **D. All of the above.**

   [From the income approach, Malaysia's GDP includes all income earned by workers and firms operating in Malaysia]

2. ✓ A developer builds a house in the beginning of 2024 and sells it shortly thereafter to a private individual. Later in 2024, the buyer resells this house for 10% more to another private individual. Which of the following is true?

   89% **A. Only the first sale is included in 2024 GDP.**
   B. Only the second sale is included in 2024 GDP.
   C. Both sales are included in 2024 GDP.
   D. Neither sale is included in 2024 GDP.

   [Only the first sale is included in 2024 GDP, because GDP measures newly produced goods/services, and resales do not create additional output per se]

Table 7.1

Consumption Expenditure	$300 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

3. Refer to table 7.1. How much is the country's GDP?

   10% A. Around $550 billion.
   70% B. Around $600 billion.
   C. Around $650 billion.
   D. Around $700 billion.
   E. Around $750 billion.
   F. Around $800 billion.
   12% **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: $Wages\ \&\ Salaries\ +\ Corporate\ Net\ Profits\ +\ Taxes\ =\ 150\ +\ 400\ +\ 300\ =\ \$850\ billion$]

4. ✓ Which of the following could cause nominal GDP to increase, but real GDP to decrease?

A. An increase in the price level and an increase in the quantity of final goods and services produced. *[Increased production implies that real GDP has increased]*

B. A decrease in the price level and an increase in the quantity of final goods and services produced. *[Same as above]*

98% **C. An increase in the price level and a decrease in the quantity of final goods and services produced.** *[Since real GDP decreases, the quantity of production should fall. If the price level increases sufficiently, though, the nominal GDP will appear to have increased]*

D. A decrease in the price level and a decrease in the quantity of final goods and services produced. *[Reduced prices and production imply that nominal GDP has decreased]*

E. An increase in nominal GDP and a decrease in real GDP cannot occur simultaneously.

5. ✓ Which of the following is most likely to be a reason for increased productivity in an economy?

97% **A. Large physical capital stock.** *[Increases output per worker through better means of production]*

B. High inflation. *[Does not improve efficiency or output per worker]*

C. A large population. *[It does not guarantee higher productivity]*

D. Low unemployment. *[It does not guarantee higher productivity either]*

6. ✓ Which of the following is considered investment (I), according to National Income Accounts on Expenditure?

A. The purchase of a new laptop by a household. *[This is part of consumption]*

98% **B. An increase in inventories held by businesses.** *[This is by definition included in investment]*

C. The purchase of stocks by an individual. *[This is existing capital that was sold from one individual to another]*

D. The value of an existing commercial building purchased by a real estate investor. *[The value of the building has been part of the GDP the year it was constructed]*

7. ✓ An economy produces only goods A and B.
In year 1: 500 units of good A and 800 units of good B are produced, at prices $280 for A and $50 for B.
In year 2: 600 units of good A and 900 units of good B are produced, at prices $320 for A and $60 for B.
If year 1 is used as the base year for calculating GDP, what was the real GDP of the economy in year 2?

A. Around $180,000.

98% **B. Around $213,000.**

C. Around $255,000.

D. Around $292,000.

[We should value year-2 output using year-1 prices; therefore, real GDP in year 2 will be:
$600 \cdot 280 + 900 \cdot 50 = 168{,}000 + 45{,}000 = 213{,}000$*]*

8. ✓ Which of the following could be a reason why real GDP understates the actual citizens' well-being?

A. Because real GDP includes the value of illegal goods and services. *[It does not account for them]*

B. Because real GDP includes the value of goods and services that are used to repair damage caused by wars or disasters. *[This actually increases citizens' well-being after a disaster]*

C. Because real GDP accounts for negative externalities such as pollution. *[It does not]*

98% **D. Because real GDP does not include leisure.** *[Leisure time increases citizens' well-being and sometimes compensates lower income]*

9. Which of the following is considered a final good?

A. A screwdriver purchased by a professional plumber. *[It is an intermediate good, since it will become part of the plumber's equipment in order for the latter to offer her/his services]*

23% **B. A camera purchased by a photography enthusiast.** *[Purchased for consumption]*

C. A computer purchased 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]*

72% D. All of the above.

E. None of the above.

10. ✓ The CPI basket consists of 15 kilos of apples and 10 kilos of oranges. In Year 1, the price of both apples and oranges is $2 per kilo. In Year 2, the price of apples rises to $2.50 and the price of oranges to $4. Using Year 1 as the base year, calculate the Consumer Price Index (CPI) for Year 2.

A. Around 100.

B. Around 125.

97% **C. Around 155.**

D. Around 180.

[Using year-1 prices, the basket costs: $15 \cdot 2 + 10 \cdot 2 = 50$*; in year 2, the cost for the basket will be:* $15 \cdot 2.5 + 10 \cdot 4 = 77.5$*. Thus,* $CPI = \frac{77.5}{50} \cdot 100$ *or* $CPI = 155$*]*