

MACROECONOMICS UNIT 2

PRACTICE SHEET



Part 1: GDP Practice- Identify if each is an example of consumer spending (C), investment spending (I), government spending (G), net exports (XN), or not counted (NC) in the US GDP for the year 2023.

1. ____ A Canadian company buys an airplane from the American company Boeing
2. ____ An American purchase an online video game from company from California
3. ____ Instagram buys new desks for its employees
4. ____ An American buys shoes from Italy
5. ____ You buy a new home in Texas that is build in 2023
6. ____ The government issues a \$500 Social Security check to your grandma living in Louisiana
7. ____ Your cousin spends \$3000 for rent for an apartment in New York
8. ____ Your brother buys a 2018 Toyota truck at a local dealership

Part 2: Unemployment Practice- Answer the question. When possible, show your work.

The nation of Macrostan has a population of 400 million people that are above 16 years old. Currently, 250 million people have full time jobs and another 35 million people have part time jobs. Of the 30 million people that would like a job but are not currently employed, 15 million are actively engaged in searching for a job while 15 million have given up looking for a job.

9. How many people are currently in the labor force of Macrostan?
10. Calculate the labor force participation rate. Show your work.
11. What is the total number of people counted as unemployed?
12. Calculate the unemployment rate. Show your work.
13. Suppose that the 15 million people that gave up looking for a job suddenly decide to start looking. What would be the total number of people unemployed and the total number in the labor force?
14. If the economy of Macrostan experiences a recession, which type(s) of unemployment exist?
15. During a recession would the unemployment rate be greater than, less than, or equal to the natural rate of unemployment? Explain.

Part 3: Inflation Practice- Fill out the blanks in the chart below. Calculate the inflation rate between each year and the CPI for each year using 2019 as the base year.

	Year	Basket Price	Inflation Rate	CPI
16.	2017	\$16	N/A	
17.	2018			50
18.	2019 (Base Year)	\$40		
19.	2020		25%	
20.	2021	\$56		

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Part 3: Nominal v. Real Practice- Answer the following. Show your work.

21. Assume the real GDP is \$50 billion and the nominal GDP is \$125 billion. What is the GDP deflator?
22. Assume the real GDP is \$240 billion and the GDP deflator is 150. What is the nominal GDP?
23. Assume the nominal GDP is \$240 billion and the GDP deflator is 150. What was the real GDP?
24. Assume that you received a nominal raise of 2%. If the inflation rate was 8%, what is your real wage, adjusted for inflation?
25. Assume that you received a nominal raise of 6%. If the inflation rate was 2%, what is your real wage, adjusted for inflation?

Part 4: FRQ Practice- Complete the following released question from the 2008B AP exam (Question 3).

OUTPUTS AND PRICES IN GALA LAND

This Year's Output	This Year's Price
400 loaves of bread	\$6 per loaf
1,000 gallons of water	\$2 per gallon
800 pieces of fruit	\$2 per piece

3. Gala Land produces three final goods: bread, water, and fruit. The table above shows this year's output and price for each good.
 - (a) Calculate this year's nominal gross domestic product (GDP).
 - (b) Assume that in Gala Land the GDP deflator (GDP price index) is 100 in the base year and 150 this year. Calculate each of the following.
 - (i) The inflation rate, expressed as a percentage, between the base year and this year
 - (ii) This year's real GDP
 - (c) Since the base year, workers have received a 20 percent increase in their nominal wages. If workers face the same inflation that you calculated in part (b)(i), what has happened to their real wages? Explain.
 - (d) If the GDP deflator in Gala Land increases unexpectedly, would a borrower with a fixed-interest-rate loan be better off or worse off? Explain.