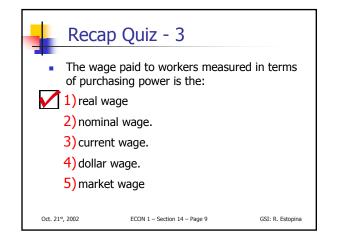
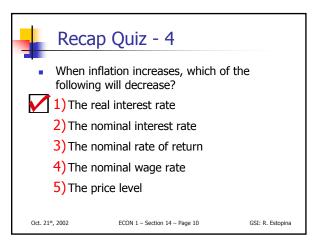
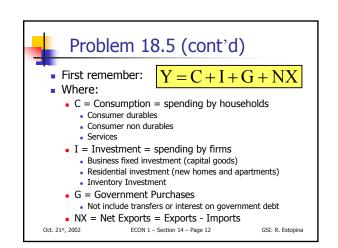


	Recap	Quiz - 2			
	A nominal	quantity is:			
	1) adjusted	for inflation.			
	2) measured	l in terms of its	s current do	ollar	
	value.				
3) measured in physical terms.					
	4) deflated.				
5) measured in terms of purchasing power					
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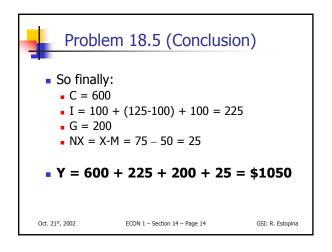
	Proble	m 18.5 (F&B pag	je 48	
- <b>1</b>	Here are so	me data for an economy.		
	Consu	mption expenditures	\$600	
		Exports	75	
G	overnment pu	rchases of goods and services	200	
	Construction of new homes and apartments			
	Sales of existing homes and apartments			
	Imports			
	Beginning	-of-year inventory stocks	100	
	End-of-	year inventory stocks	125	
	Busin	ess fixed investment	100	
	Governme	ent payments to retirees	100	
	Household p	ourchases of durable goods	150	
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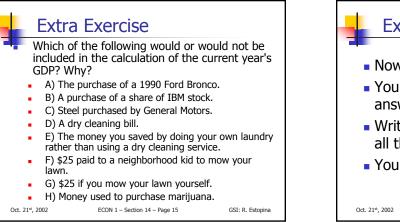


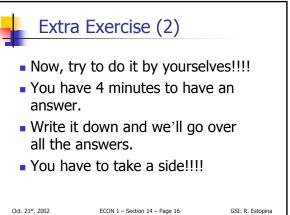
Problem	18.5	(cont'	d)
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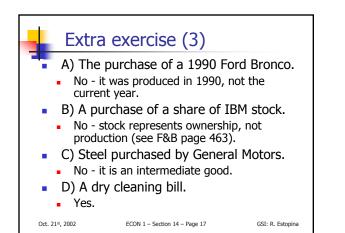
Let's classify the different components:

CONCEPT	\$	Y=C+I+G+NX
Consumption expenditures	\$600	С
Exports	75	X
Government purchases of goods and services	200	G
Construction of new homes and apartments	100	Part of I
Sales of existing homes and apartments	200	Not counted on GD
Imports	50	M
Beginning-of-year inventory stocks	100	∆ of Inventory
End-of-year inventory stocks	125	is part of I
Business fixed investment	100	Part of I
Government payments to retirees	100	Not counted on GD
Household purchases of durable goods	150	Included in C



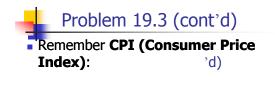






Extra exercise (4)					
<ul> <li>E) The money you saved by doing your own laundry rather than using a dry cleaning service.</li> <li>No - there was no market transaction.</li> <li>F) \$25 paid to a neighborhood kid to mow your lawn.</li> </ul>					
<ul> <li>Yes.</li> </ul>					
<ul> <li>G) \$25 if you mow your lawn yourself.</li> </ul>					
<ul> <li>No - there was no market transaction</li> </ul>					
<ul> <li>H) Money used to purchase marijuana.</li> </ul>					
<ul> <li>No - illegal production is not included in GDP calculations.</li> </ul>					
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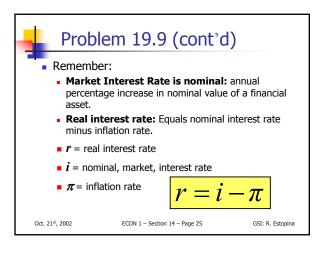
<ul> <li>Problem 19.3 (F&amp;B page 506)</li> <li>According the US Census Bureau, nominal (median) income for a family of four in the US was:</li> </ul>					
	Year	Income	Growth		
	1980	\$24,332			
	1985	\$32,777	34,7%		
	1990	\$41,451	26,5%		
	1997	\$53,350	28,7%		
<ul> <li>In purchasing power, how did family income compare in each of those 4 years?</li> </ul>					
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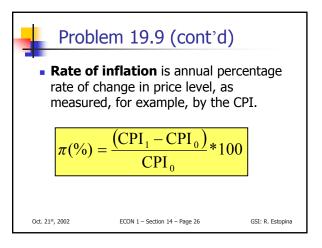


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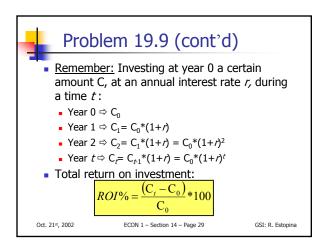
GSI: R. Estopina





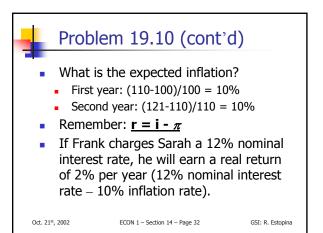
<ul> <li>Problem 19.9 (cont'd)</li> <li>First we have to find the inflation rate:</li> </ul>					
	Year	CPI	π		
	2000	100			
	2001	105	5%		
	2002	110	4,8%		
	2003	118	7,3%		
<ul> <li>Also, real return equals the nominal interest rate minus the inflation rate (r = i - π).</li> <li>Data from the problem i = 6%.</li> </ul>					
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<ul> <li>Problem 19.9 (cont'd)</li> <li>So the real interest rate in each year will be:</li> </ul>						
	Year	CPI	π	r		
	2000	100				
	2001	105	5%	1%		
	2002	110	4,8%	1,2%		
	2003	118	7,3%	-1,3%		
What is the total real return over the 3-year period?						
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Problem 19.9 (Conclusion) Now, let's see Albert's investment return from the original \$1,000 @ 6% nominal interest rate:				
Ū.	Year	CPI	С	
	2000	100	\$1,000	
	2001	105	\$1,060	
	2002	110	\$1,123.6	
	2003	118	\$1,191.02	
<ul> <li>Total ROI = (1,192-1,000)/1,000 = 19.2%</li> <li>But CPI rose = (118-100)/100 = 18%</li> <li>So REAL return = 19.2-18 = 1.2%</li> <li>Oct. 21<sup>st</sup>, 2002 ECON 1 - Section 14 - Page 30 GSI: R. Estopina</li> </ul>				

Probl	em 19.10 (F&B pa	age 508)		
<ul> <li>Both agre return per</li> <li>A) The C that France</li> </ul>	ending \$1,000 to Sarah e that Frank should ea year. PI (multiplied by 100) is 1 k makes the loan. It is ex year and 121 in 2 years.	rn a 2% real		
<ul> <li>What nominal rate of interest should Frank charge Sarah?</li> </ul>				
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Probl	em 19.10 (cont	:'d)			
<ul> <li>B) Suppose Frank and Sarah are unsure about what the CPI will be in two years. How could they index Sarah's annual repayments to ensure that Frank gets an annual 2% real rate of return?</li> </ul>					
<ul> <li>To ensure a 2% annual return on the loan, Frank and Sarah should agree that Sarah will pay an interest rate in each year equal to 2% plus whatever the inflation rate turns out to be.</li> </ul>					
<ul> <li>For example, if inflation turns out to be 8% during the first year and 10% during the second year, Sarah should pay 10% nominal interest in the first year and 12% in the second year.</li> </ul>					
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	Problem 19.7 (F&B page 507)					
• P	Prices for gasoline from 1978 to 1986 together with CPI.     Year Gasoline (\$/gallon) CPI (1982-84=1.0)					
	1978	0.633	0.652			
	1979	0.901	0.726			
	1980	1.269	0.824			
	1981	1.391	0.909			
	1982	1.309	0.965			
	1983	1.277	0.996			
	1984	1.229	1.039			
	1985	1.241	1.076			
	1986	0.955	1.136			
	1978	0.633	0.652			
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## Problem 19.7 (cont'd) Work with the data and say if the changes in gas prices during this period were due to general inflation, or if the were factors specific to the oil market playing a role as well. Ops, we don't have time to go through it!!!! Why don't you do it at home ? Have enough to do? Come on!!!! YOU NEED MORE!!!! Oct. 21st, 2002 ECON 1 - Section 14 - Page 35 GSI: R. Estopina

	Problems for next sections !!!
	So here you have
	This is a new part of the class.
	I'll tell you the problems that I'll do in next sections and you can try to do them at home. I'll do most of them but not promise to go through all.
	For next sections:
	<u>Chapter 20:</u> 1, 3, 4 & 8.
	<u>Chapter 22:</u> 2, 3, 5 & 9.
	Remember: This is not mandatory. It won't be graded. Only for those of you that need improvement in Exam grades (actually more than "some" of you).
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