

**Economics 231 Principles of Macroeconomics**  
**Section 5**  
**Spring 2010**  
**Homework 2**

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Due date: Tuesday, February 23, 2010

10 points

1. [2 points: 1/2 point each part—more than 3 wrong gets no credit] For each type of spending, name the component of GDP (if any) to which it belongs:
  - (a) The city of Macomb purchases a new police car.
  - (b) A car dealer increases their inventory
  - (c) An accountant buys a computer for her office
  - (d) An accountant buys paper for the copy machine at the office
  - (e) An American citizen buys a ticket on British Airways
  - (f) A person buys a new house
  - (g) A person buys an existing house
  - (h) A person adds a room to an existing house
  - (i) The government sends a Social Security check to a retired person
  - (j) You buy a movie ticket

2. [3 points: 1 point for each part] Suppose that in 2004 and 2005 prices and output for a simple economy were as follows:

	2004	2005
Apples	P=4 Q=6	P=5 Q=8
Oranges	P=8 Q=8	P=6 Q=10

- (a) Calculate nominal GDP for both years.
  - (b) Calculate real GDP in 2005 using 2004 prices.
  - (c) Calculate the percentage change in nominal GDP from 2004 to 2005. Calculate the percentage change in real GDP from 2004 to 2005 using 2004 prices.
3. [1 point] Name two types of economic activity that GDP does not measure.

4. [1 point] Explain briefly what is meant by the term “human capital.”
5. [1 point] What were the dates of the previous two recessions (not counting the current one)?
6. [1 point] Explain what is meant by property rights and how they facilitate an environment for economic growth.
7. [1 point: 1/2 for each part—no credit for 2 or more wrong] From the Internet, find the following information
  - (a) The current unemployment rate
  - (b) The rate of growth of GDP in the last quarter
  - (c) The rate of inflation measured by the CPI (12 month percent change)