

101LON - The Economic Environment of Business

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1 Introduction to Macroeconomics

1.1 Question 1

- Why an economy's income must equal its expenditure?
- What is GDP?
- What is meant by the term 'GDP per capita' and how is it measured?

1.1.1 Answer

These questions refer to definitions, use the slides, the book or the internet to answer them.

1.2 Question 2

List the four components of GDP. Give an example of each.

1.2.1 Answer

Remember the equation. Discuss a bit each component

1.3 Question 3

What components of GDP (if any) would each of the following transactions affect? Explain.

- A family buys a new refrigerator.
- Aunt Jane buys a new house.
- Aston Martin sells a DB7 from its inventory.
- You buy a pizza.
- The government builds a new motorway.

- f. You buy a bottle of Californian wine.
- g. Honda expands its factory in England.

1.3.1 Answer

Distinguish between the 4 components of GDP you mentioned in the previous question

1.4 Question 4

Below are some data from the land of milk and honey.

Table 1: Milk and Honey

Year	Price of Milk	Quantity of Milk	Price of honey	Quantity of honey
2016	1	100	2	50
2017	1	200	2	100
2018	2	200	4	100

- a. Compute nominal GDP, real GDP and the GDP deflator for each year, using 2016 as the base year.
- b. Compute the percentage change in nominal GDP, real GDP and the GDP deflator in 2017 and 2018 from the preceding year. For each year, identify the variable that does not change. Explain in words why your answer makes sense.
- c. Did economic well-being rise more in 2017 or 2018? Explain. changes in your graph

1.4.1 Answer

Use the formulas from the book and the slides to calculate everything in this question. It is a simple application of the formulas we covered in the lecture

2 Cost of Living

Please attempt to answer or solve all the following questions. If you require any assistance ask in class.

2.1 Question 1

- Describe the three problems that make the CPI an imperfect measure of the cost of living.
- Which do you think has a greater effect on the CPI: a 10 per cent increase in the price of chicken or a 10 per cent increase in the price of caviar? Why?

2.1.1 Answer

For the first part refer to the relevant discussion in the book or the lecture slides.

2.2 Question 2

Go to the website of the UK ONS (<http://www.statistics.gov.uk>) or Eurostat (<http://ec.europa.eu/eurostat/web/main/home>) and find data on the CPI. By how much has the index including all items risen over the past year for your country?

2.2.1 Answer

Purpose of this is to find the data for your country, there is no correct answer as long as you find the correct data!

3 Unemployment

3.1 Question 1

- Why might a person who does not have a job not be unemployed?
- Define the labour force, the unemployment rate and the labour force participation rate
- Why is frictional unemployment inevitable? How might the government reduce the amount of frictional unemployment?

3.1.1 Answer

Definitions, use the book, the slides or the internet to answer these questions.

3.2 Question 2

Assume that in a country, of all adult people, 29500000 were employed, 1120000 were unemployed and 11000000 were not in the labour force.

- How big was the labour force?
- What was the labour force participation rate?
- What was the unemployment rate?

3.2.1 Answer

Use of definitions and application of formulas in the book and the slides.

3.3 Question 3

Go to the website of the UK ONS (<http://www.statistics.gov.uk>) or Eurostat (<http://ec.europa.eu/eurostat/web/main/home>). What is the national unemployment rate right now? Find the unemployment rate for the demographic group that best fits a description of you (for example, based on age, sex and ethnic group). Is it higher or lower than the national average?

3.3.1 Answer

Purpose of this is to find the data for your country, there is no correct answer as long as you find the correct data!

3.4 Question 4

Are the following workers more likely to experience short-term or long-term unemployment? Explain.

- a. A construction worker laid off because of bad weather.
- b. A manufacturing worker who loses their job at a plant in an isolated area.
- c. A bus industry worker laid off because of competition from the railway
- d. A short-order cook (a specialist in making simple, quick meals in restaurants) who loses their job when a new restaurant opens across the street.
- e. An expert welder with little formal education who loses their job when the company installs automatic welding machinery.

3.4.1 Answer

Think how likely they are to find a job

4 MCQ

Read the questions carefully and choose ONE option only.

1. ***If nominal GDP is three times its old value and the GDP deflator is twice its old value, then real GDP***
 - a. is 5 times its original value.
 - b. is 2.5 times its original value.
 - c. is 6 times its original value.
 - d. is 1.5 times its original value.

2. ***Of the following which is the best single measure of a country's economic well-being?***
 - a. real GDP per person.
 - b. government expenditures per person.
 - c. nominal GDP per person.
 - d. investment per business firm.

3. ***During recessions what happens to profits and the unemployment rate?***
 - a. both fall.
 - b. profits rise and the unemployment rate falls.
 - c. both rise.
 - d. the unemployment rate rises and profits fall.

4. ***A general increase in the price level of goods and services in an economy describes***
 - a. inflation.
 - b. deflation.
 - c. economic growth.
 - d. stagflation.

5. *Suppose the consumer price index is 89 in 2008, 94 in 2010, 100 in 2012, and 103 in 2014. If Social Security Benefits were \$1,000 in 2014 and we indexed for inflation, the Social Security benefits would have been in 2012.*
- a. \$864.08
 - b. \$912.62
 - c. \$970.87
 - d. \$1,000
6. *Consider the case of Crusoe's economy. Suppose Robinson Crusoe spends two hours to catch four fish. What is his productivity?*
- a. 0.5 hour per fish.
 - b. 2 fish per hour.
 - c. 2 hour.
 - d. 4 fish.
7. *The unemployment that results from the job search is*
- a. frictional.
 - b. structural.
 - c. cyclical.
 - d. the natural rate of unemployment.
8. *Suppose that the adult non-institutionalized population of California is 30 million. If 18 million people are employed and 1.5 million are unemployed, then*
- a. 30 million are in the labor force.
 - b. 28.5 million are in the labor force.
 - c. 18 million are in the labor force.
 - d. 19.5 million are in the labor force.

9. *The labor force participation rate is computed as $100 \times$*
- a. (the number of people employed + the number of people unemployed) divided by the adult non-institutionalized population.
 - b. the number of people employed divided by the adult non-institutionalized population.
 - c. the number of people employed divided by the number of people who say they are eligible for work.
 - d. (the number of people employed + the number of people unemployed) divided by the number of people who say they are eligible for work.
10. *If the population grows at the same rate as income, then GDP per capita will remain constant*
- a. True
 - b. False
11. *Real GDP per person more accurately measures a nation's standard of living than nominal GDP per person.*
- a. True
 - b. False
12. *The CPI value in 2013 is 100 and the annual inflation rate is 6%. The CPI value in 2014 is 106.*
- a. True
 - b. False
13. *Inflation can only be measured by the consumer price index and not by the GDP deflator.*
- a. True
 - b. False
14. *If real GDP rises and the GDP deflator falls, then it must be that nominal GDP rose.*
- a. True
 - b. False
15. *The best single measure of a country's economic well-being is its nominal GDP per person.*
- a. True
 - b. False