

Econ 353, Spring 2012

Instructor: Sunanda Roy

Homework # 1,

Hardcopy due at the end of the class, Feb 2 (Thurs)

Late submissions will not be accepted except for family and medical emergencies. Please be prepared to show documentation in such cases. No electronic files or multiple unstapled sheets will be accepted.

Q 1-3 presumes knowledge from Principles of Macro. All work must be shown to get full credits.

1. Assume that 2006 is the base year. Suppose that the real GDP for 2008 is \$10.5 trillion and the GDP deflator for the same year is 115. What is the nominal GDP for the year 2008?
2. If real GDP changed from \$ 12 trillion in 2007 to \$11 trillion in 2008, what was the annual growth rate from 2007 to 2008?
3. If the GDP deflator (assuming 2006 as the base year) changed from 115 in 2007 to 113 in 2008, what was the rate of inflation from 2007 to 2008?
4. If there are 10 goods in a barter economy, how many relative prices do you need to know in order to trade?
5. Use concepts discussed in Chap 2 to answer the following question. Why might you be willing to make a loan to your neighbor by putting funds in a savings account for a 5% interest rate at a bank and having the bank lend her the funds at a 10% interest rate, rather than lend her the funds yourself?
6. Consider the following traders who meet.

Bob	has an apple	wants an orange
Ted	has an orange	wants a peach
Mary	has a pear	wants an apple
Alice	has a peach	wants an orange

Which, if any, pairs of traders has a double coincidence of wants?

7. Use the table below to answer the following questions regarding the monetary aggregates. Assume that the repurchase agreements and the Eurodollars are term (not overnight).

Table 1. Components of M1 and M2

Currency	\$ 600
Non-institutional money market mutual funds	\$ 1,000
Demand deposits	\$ 300

Institutional money market mutual funds	\$ 600
Savings and money market deposit accounts	\$ 2100
Large time deposits	\$ 700
Small time deposits	\$ 1,000
Repurchase agreements	\$ 300
Eurodollars	\$ 200
Traveler's checks	\$ 10
Other checkable deposits	\$ 200

According to the table 1 above, what are M1 and M2 equal to, respectively?

8. Rank the following assets from most liquid to least liquid and provide short explanations.

Demand deposits, houses, currency, washing machines, savings deposits, common stock