Soochow University, Summer Session I, 2022

ECON202: Macroeconomics

Discussion Session I

Question 1. Why is it desirable for a country to have a large GDP? Give an example of something that would raise GDP and yet be undesirable.

Question 2. Discuss each of the following questions:

(a) If GDP is a good measure of well-being, why is Switzerland's GDP so much lower than India's GDP or Russia's GDP?

(b) What measures would be better to compare the well-being of different countries?

(c) How do you expect these direct measures to correlate with per capita GDP?

Question 3. Which do you think has a greater effect on the CPI: a 10 percent increase in the price of chicken or a 10 percent increase in the price of caviar? Why?

Question 4. If the price of a Navy submarine rises, is the CPI or the GDP deflator affected more? Why?

Question 5. Sally Saver deposits $1,000 into a bank account that pays an annual interest rate of 10%. One year latter, she withdraws $1,100.

(a) If there is no inflation, how much has her purchasing power risen?

(b) What if the inflation rate now becomes 12%?

Question 6. Suppose that a borrower and a lender agree on the nominal interest rate to be paid on a loan. Then inflation turns out to be higher than they both expected.

(a) Is the real interest rate on this loan higher or lower than expected?

(b) Does the lender gain or lose from this unexpected high inflation? Does the borrower gain or lose?

(c) Inflation during the 1970s in the US was much higher than most people had expected when the decade began. How did this affect homeowners who obtained fixed-rate mortgages during the 1960s? How did it affect the banks that lent the money?

Question 7. Suppose that congress passes a law requiring employers to provide employees some benefits (such as healthcare) that raises the cost of an employee by $4 per hour.

(a) What effect does this employer mandate have on the demand for labour? (In answering this and the following questions, be quantitate when you can.)

(b) If employees place a value on this benefit exactly equal to its cost, what effect does this employer mandate have on the supply of labour?

(c) If the wage can freely adjust to balance supply and demand, how does this affect the wage and the level of employment? Are employers better or worse off? Are employees better or worse off?