

Question 2: Short**5 points**

- (a)** Calculate the nominal GDP in Maltrose in year 2 as \$210 and show your work. **1 point**

$$\text{Nominal GDP}_{\text{Year 2}} = (\$13 \times 10) + (\$4 \times 20) = \$210$$

- (b)** Calculate the GDP deflator in Maltrose in year 2 as 105 and show your work. **1 point**

$$\text{GDP Deflator}_{\text{Year 2}} = \frac{\text{Nominal GDP}_{\text{Year 2}}}{\text{Real GDP}_{\text{Year 2}}} \times 100 = \frac{\$210}{(\$10 \times 10) + (\$5 \times 20)} \times 100 = 105$$

- (c)** State that the inflation rate from year 1 to year 2 was 5%. **1 point**

- (d) (i)** State that people living on a fixed income were worse off. **1 point**

- (ii)** State that borrowers with fixed-interest-rate loans were better off because the real value of their debt decreased by more than they expected or because the real interest rate was lower than expected. **1 point**

Total for part (d) 2 points

Total for question 2 5 points