

Question 2: Short**5 points**

- (a) Calculate real GDP in Louland in year 2 as 900,000 and show your work. **1 point**

$$\text{Real GDP} = \frac{\text{Nominal GDP}}{\text{GDP Deflator}} \times 100 = \frac{1,035,000}{115} \times 100 = 900,000$$

- (b) State that the demand for money would increase and the nominal interest rate would increase. **1 point**

- (c) State that the standard of living of the average citizen in Louland decreased from year 1 to year 2 and explain that the real GDP per capita in year 1 was 800 and the real GDP per capita in year 2 was 750. **1 point**

- (d) State that the inflation rate from year 1 to year 2 was 15%. **1 point**

- (e) State that real wages decreased and explain that nominal wages increased by less than the inflation rate ($10\% < 15\%$). **1 point**

Total for question 2 5 points

Question 2: Short**5 points**

- (a) Calculate Country A's real GDP in 2021 as 44,000, calculate Country A's real GDP per capita in 2021 as 400, and show your work. **1 point**

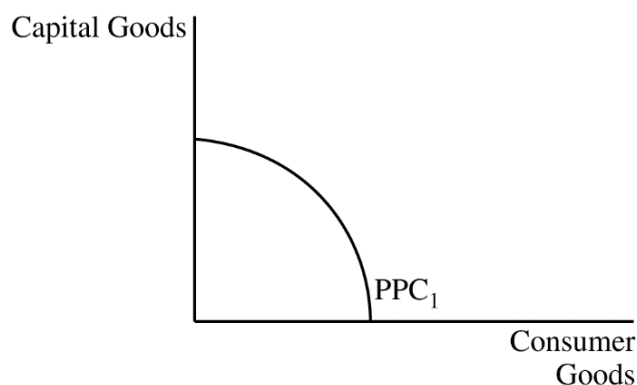
$$\text{Real GDP} = \frac{88,000}{200} \times 100 = 44,000$$

$$\text{Real GDP per Capita} = \frac{44,000}{110} = 400$$

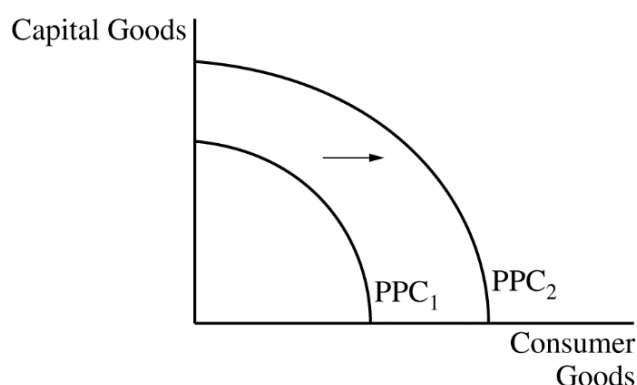
- (b) State that the standard of living for the average person in Country A has stayed the same from 2020 to 2021 and explain that real GDP per capita in Country A did not change from 2020 to 2021. **1 point**

- (c) State that an increase in government spending on education will promote economic growth in Country A and explain that human capital will increase and the labor force will become more productive. **1 point**

- (d) Draw a correctly labeled graph of the production possibilities curve. **1 point**



- For the second point, the graph must show an outward shift of the production possibilities curve. **1 point**

**Total for part (d) 2 points****Total for question 2 5 points**