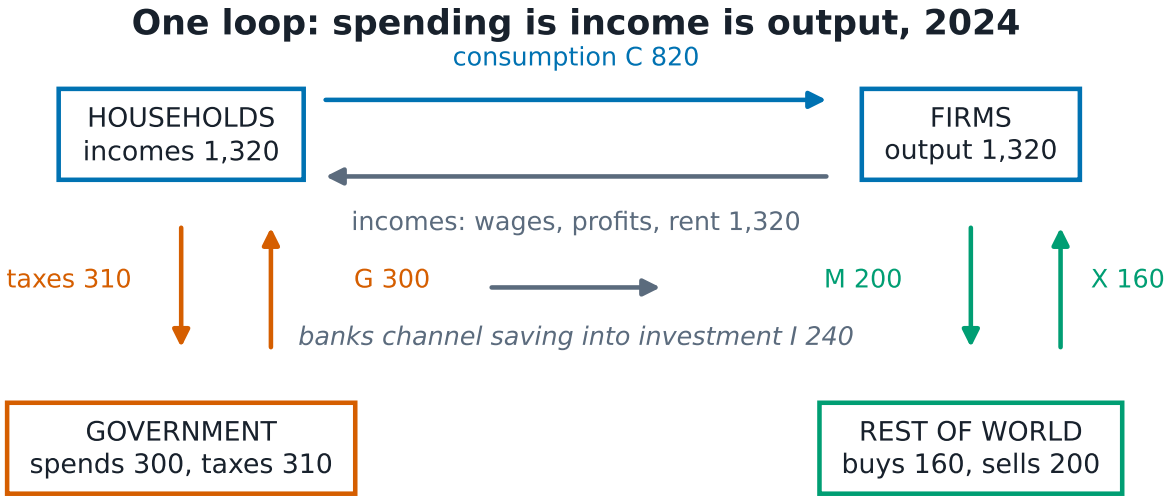
Exercise walk-through

4.1
National accounts

University Business

National accounts: the loop closes at 1,320

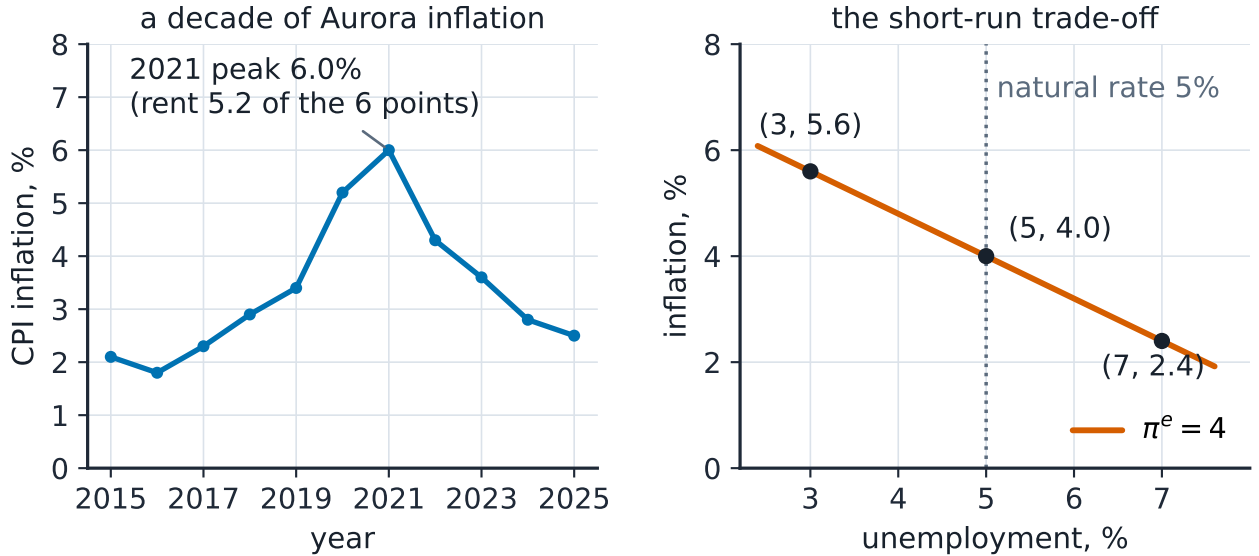


Y = 820 + 240 + 300 + 160 - 200 = 1,320 (both sides close)

C + I + G + X - M = 1,320, and income closes at the same 1,320.

Inflation: audit the index

Prices and jobs: an index you can audit, a trade-off that expires



CPI 106.0 means 6% **inflation**; the trade-off holds until expectations move.

International: the ledger closes

The ledger closes: -35 is financed

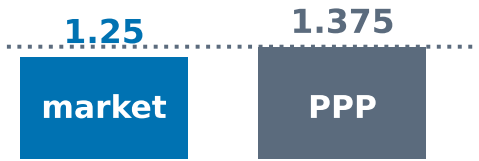
CURRENT ACCOUNT			FINANCIAL ACCOUNT	
trade (X - M)	-40		foreign saving	+35
net income	+8	=	**balance**	**+35**
transfers	-3			
current account balance	**-35**			

CA = S - I: investment exceeds national saving by exactly 35

The pound against parity

USD per GBP

market below parity:
the pound looks cheap,
imports dear



A **current account** of -35 met by +35 of foreign saving: CA = S - I.

Exercises 2.1·2.2

2.1 Compute GDP from the expenditure side, then from the income side, and state whether they tie. [3]

2.2 Nominal GDP is 880 and real GDP (2020 prices) is 800. Compute the deflator and the split of nominal growth since 2020 into real growth and prices. [3]

Exercises 2.1·2.2

2.1 Compute GDP from the expenditure side, then from the income side, and state whether they tie. [3]

2.1

- Expenditure: $500 + 150 + 200 + 90 - 140 = £800$bn.
- Income: $430 + 60 + 190 + 55 + 30 + 70 - 35 = £800$bn.
- They tie – the two sides are the same loop counted at two points.

2.2 Nominal GDP is 880 and real GDP (2020 prices) is 800. Compute the deflator and the split of nominal growth since 2020 into real growth and prices. [3]

2.2

- Deflator $= 880/800 \times 100 = 110.0$.
- Nominal growth 10.0% since 2020 (from 800).
- Real growth 0.0% – all of it was prices.

Exercises 2.3·2.4

2.3 A mill sells 80 of flour to a bakery that sells 300 of bread. State what belongs in GDP, two ways. [2]

2.4 Population grew from 8.00 to 8.32 million while real GDP moved from 800 to 800. What happened to real GDP per person, in %? [3]

Exercises 2.3·2.4

2.3 A mill sells 80 of flour to a bakery that sells 300 of bread. State what belongs in GDP, two ways. [2]

2.3

- The final sale: £300.
- Or value added: £80 at the mill + £220 at the bakery = £300 – the same total, no double count.

2.4 Population grew from 8.00 to 8.32 million while real GDP moved from 800 to 800. What happened to real GDP per person, in %? [3]

2.4

- Per person 2020: $800/8.00 = 100$; 2024: $800/8.32 = 96.2$.
- Change: $96.2/100 - 1 = -3.8\%$.
- Zero output growth plus 4% population growth is a 3.8% fall in living standards.

Exercise 2.5

2.5 Borealia's state pays a 60 pension and buys a 25 van built this year. Say what each does to GDP and why. [2]

Exercise 2.5

2.5 Borealia's state pays a 60 pension and buys a 25 van built this year. Say what each does to GDP and why. [2]

2.5

- The pension: a transfer, nothing produced – GDP unchanged.
- The van: government investment, produced this year – GDP +25.