In-class review questions:

GDP accounting, CPI, unemployment.

1. Sales of existing homes increased in November-December, setting a historical record for all 2001. Nominal GDP declined during the same period of time.
   a. How can you reconcile both pieces of information?
   b. Explain why, under these circumstances, the use of GDP as a measure of economic activity may be flawed.

2. For many people a rise in the consumer price index is not an accurate measure of how much their cost of living has increased. What about for a nonsmoking vegetarian who walks to work, for example?
   a. Why would the CPI not be applicable to this particular person?
   b. Describe some of the implications of overstating the general price level through the CPI.

3. A government report traces the economy’s stagnation in the last fifteen months to massive declines in spending on commercial construction, while residential construction grew at only half the pace of previous recoveries.
   a. According to the expenditure approach to GDP, what type of expenditures do these two types of construction represent?
   b. What are the implications of these different growth rates for future economic growth?

4. Our jobless rate fell last month to its lowest level in the year. But if you think it’s a sign that the economy is suddenly moving up, look again.
   a. Why wouldn’t a fall in the unemployment rate be a sign that the economy is moving up?
   b. List and describe the groups of working-age population that are not part of the labor force.

5. Contrary to the central bank’s pronouncements, higher interest rates have not caused everyone to borrow less. Most people are borrowing as much as ever –or more than ever- to buy goods now.
   a. Why would loan demand be rising? How can you explain this piece of news?
   b. When would loan demand return to its “normal” behavior?