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Fall 2005, Intermediate Macroeconomics, section 3

ECON 219 Quiz I

General recommendations:

- Read questions thoroughly.
- Please respond on this copy.
- You have 20 minutes.
- Work individually.
- There are two pages.
- Good luck!

Your name:

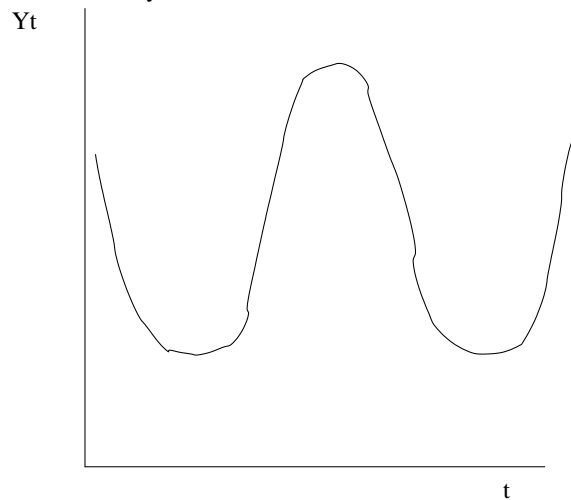
1. Circle the appropriate answer on each of the following items. Circle multiple items if necessary:
 - (a) The following items are included when computing GDP with the expenditure approach: 1) investment; 2) wages; 3) interest on business loans; 4) value added.
 - (b) What are the various ways used to determine trends or get rid of them?: 1) HP-filter; 2) growth rates; 3) logarithms; 4) deseasonalizing.
 - (c) A series is procyclical if its correlation with GDP is: 1) 0.5; 2) 0.2; 3) -0.2; 4) -0.5.
 - (d) How can we characterize the behavior of US government expenses through the business cycle in the United States? 1) we cannot tell; 2) they are anti-cyclical; 3) they are procyclical; 4) they are acyclical.
2. Suppose we have the following information about a furniture maker: furniture sales \$100M, wood purchases \$60M, wages \$25M, tax on profits \$5M, profits \$10M. What is its contribution of this company to GDP using the product approach? If the company is replacing the purchased wood by hiring lumbermen who cut it from factory owned forests for \$50, what is now the contribution of this firm to GDP following the product approach?
3. Why is it useful to have three different approaches to determining GDP?

4. Compute the rate of inflation using the year 1 basket in the following example. Provide the details of your calculations to get partial credit if wrong:

	honey	bread
Year 1 price	\$4	\$8
Year 2 price	\$5	\$12
Year 1 quantity	8	6
Year 2 quantity	6	8

5. Define what non-residential investment is, without stating the obvious.

6. Using the graph below, which represents GDP, draw a series that is less volatile and acyclical.



Bonus question: Why is the business cycle measurement still subjective when we use the HP-filter?