

Due Date: Monday, September 7th

Do these problems on separate sheets of paper, and hand in to my mailbox (in the economics department) by Monday, 1600. You can work with others on these problems, but be sure to turn in your own work individually, with your name on each sheet.

1. Jimmy is an avid candy connoisseur. Last year, he purchased 75 Snickers bars costing \$2 each and 100 Butterfinger bars costing \$1.25 each. This year, he purchased 150 Snickers bars for \$1.50 each and 80 Butterfinger bars for \$2 each.

Assume that a typical consumer basket includes 50 bars of each type. Compute a consumer price index for each year and determine the percentage change in the index over the two years.

Calculate the implicit price deflator (defined as Jimmy's nominal spending divided by his real spending). How does this deflator compare to the CPI you calculated above? Which measurement do you think is more relevant in determining the change in Jimmy's cost of living?

2. Consider an economy that produces and consumes bread and automobiles. The following table contains data for two different years:

	Year 2000	Year 2010
Price of an automobile	\$50,000	\$60,000
Price of a loaf of bread	\$10	\$20
Number of automobiles produced	100	120
Number of loaves of bread produced	500,000	400,000

Using the year 2000 as the base year, compute the following statistics for each year: nominal GDP, real GDP, the implicit price deflator for GDP, and a fixed-weight price index such as the CPI.

3. List and explain (one or two sentences each) the differences between the CPI Index and the GDP Deflator. Which do you believe is a better measure of actual inflation in the U.S? Why?

Do the following questions from the textbook:

Questions 4, 5 and 8 from **Numerical Problems** in Chapter 2 (page 58).

Question 3 from **Analytical Problems** in Chapter 2 (page 59).

Use excel to do Question 1 from **Working with Macroeconomic Data** in Chapter 2 (page 60). Work with others if you are not sure how to graph data in excel.