**KIMEP University**

**Introduction to Economics**

**2 MT Exam**

**Deadline: 16 November, 12.00 (noon)**

**Instructions: You must answer questions. Each question is worth 10%. You must indicate word count after every question except the True/False questions. Your answers must be typed up and uploaded into Moodle folder (please wait for further details of this folder via email). The folder will close at 12.00 on November 16th.**

1. Which do you think has a greater effect on the consumer price index: a 10 percent increase in the price of beef or a 10 percent increase in the price of caviar? Explain your answer. (Minimum of 100 words).

2. Describe the three problems that make the consumer price index an imperfect measure of

the cost of living. (Minimum of 100 words).

3. Over a long period of time, the price of a kebab rose from £5.00 to £7.50. Over the same

period, the consumer price index rose from 150 to 300. Adjusted for overall inflation, how much did the price of the kebab change? Show your calculations step by step with explanations. (Minimum of 100 words).

4. Indexation the automatic correction by law or contract of a dollar (or tenge/pound etc) amount for the effects of inflation. True or False?

5. Consumer price index (CPI) a measure of the overall cost of the goods and services bought by

a rich consumer. True or False?

6. Explain why an economy’s income must equal its expenditure. (Minimum 100 words).

7. A farmer sells wheat to a baker for £5. The baker uses the wheat to make bread, which is

sold for $8 to a sandwich maker who then makes a sandwich and sells it for £10 to a banker for lunch (final consumption) . What is the total contribution of these transactions to GDP? Explain your answer. (Minimum of 50 words).

8. List the four components of GDP. Give your own example of each of the components. (Minimum of 100 words).

9. Why do economists use real GDP rather than nominal GDP to gauge economic

well-being? Explain your answer. (Minimum of 100 words).

10. In the year 2010, the economy produces 100 loaves of bread that sell for $2 each. In the year 2011, the economy produces 200 loaves of bread that sell for $3 each. Calculate nominal GDP, real GDP, and the GDP deflator for each year. (Use 2010 as the base year.) By what percentage does each of these three statistics rise from one year to the next? Show step—by-step calculations. (Minimum of 100 words).