Aggregate Output and Inflation: Problems

The following data show all goods and services purchased in Pennsyltucky in 2011 and 2012. Pennsyltucky is completely isolated and unapproachable, and thus does not engage in any international trade:

Item	Q_{11}	P_{11}	Q_{12}	P_{12}
Sock Puppets	100	\$150	120	\$200
New Housing	10	\$1000	5	\$1000
Old Housing	10	\$100	15	\$300
Tractors	20	\$300	25	\$280
Dr. Pepper	80	\$100	40	\$50

1. Calculate nominal GDP, consumption, and investment in Pennsyltucky for 2011 and 2012?

2. Using 2011 as the base year, calculate the change in real GDP in Pennsyltucky between 2011 and 2012.

3. Using 2012 as the base year, calculate the change in real GDP in Pennsyltucky between 2011 and 2012.

4. Define a basket of goods that composes a consumer price index. Using 2011 as the base year calculate inflation in Pennsyltucky between 2011 and 2012.

5. True or False? Because imports are subtracted from GDP in the GDP accounting identity, GDP may be negative if the amount of imports is large enough.

6. True or False? More inflation is always a social bad.

7. What is the difference between deflation and disinflation?

8. Provide an example of a policy that you think would boost GDP, but reduce social welfare.

9. Suppose that the quality of sock puppets increased between 2011 and 2012. Would your answers from #2-3 overstate or understate economic growth?

10. Provide one reason why the consumer price index might overstate actual inflation?

From the textbook

11. What is the difference between gross domestic product and net national product?

12. What are cost of living adjustments (COLAs) and how might they mitigate the social costs of inflation?

13. True or False? During the covid-19 pandemic, U.S. inflation was higher than at any time since World War II.