

THE HONG KONG POLYTECHNIC UNIVERSITY
HONG KONG COMMUNITY COLLEGE

Subject Title : Introduction to Macroeconomics **Subject Code** : CCN2129

Session : Semester Two, 2017/18

Numerical answers

Question B1

- (a) GDP measured in current prices is nominal GDP. Nominal GDP fell from \$96 billion to \$48 billion, a decline of 50 percent.
- (b) Real GDP is nominal GDP divided by the price index and multiplied by 100. Real GDP in 2016 was $(\$96 \text{ b}/100) \times 100 = \96 billion . Real GDP in 2017 was $(\$48 \text{ b}/75) \times 100 = \64 billion . Real GDP fell from \$96 billion to \$64 billion, a decline of 33 percent.

Question B6

The sacrifice ratio is 2.5 so if a country with 8 percent inflation wants to reduce it to 2 percent they will face a reduction in output equal to 2.5 times 6 percent = 15 percent of annual output.