Problem Set 2

Lecture 2: GDP and What Does/Doesn't Count Toward GDP, the Three Equivalent Measures of GDP, Real vs. Nominal GDP, and Unemployment

1. What is the direct effect of each of the following transactions on Canadian GDP? (By direct effect, I mean do not consider any multiplier effects.) Unless otherwise noted, assume everything happened in the same year.

(a) The Canadian government spends $4 billion on transportation improvements.

(b) The Canadian government imports $1 billion in machines and materials as part of spending $4 billion on transportation improvements.