Problem Set 3

Lecture 3: Measuring Inflation, Real vs. Nominal Interest Rates, Long-Run Growth, Savings and Investment, the Market for Loanable Funds, and the Business Cycle

Part A: Prices and Inflation

1. What movie had the highest box office receipts? Titanic earned $601 million in the U.S. while Star Wars only earned $323 million in the U.S. when initially released, but Titanic was released in 1997 while Star Wars was initially released in 1977, and prices changed quite a bit between those two periods. The U.S. CPI (annual average) is 60.6 in 1977, 160.5 in 1997, and 229.6 in 2012. For each of the following movies, what are U.S. box office receipts in constant 2012 dollars?

- Star Wars made $323 million in 1977 and another $138 million when re-released in 1997.
- Jurassic Park made $356 million in 1993.
- Raiders of the Lost Ark made $242 million in 1981.
- Shrek 2 made $436 million in 2004.
- The Return of the King made $377 million in 2003.
- Titanic made $601 million in 1997.