

Week 12 Recitation Assignment and Exercise**Part One**

Find a news article that concerns a macroeconomic or monetary policy issue. Put a copy of the article in your journal. Write 100 words explaining what the issue is and why it is important. Include your analysis in your journal.

Part Two

In this exercise, students will gain factual knowledge about the size and composition of the U.S. economy. They will also learn how to use economic data to answer questions about the U.S. economy.

Procedure for Part Two

1. Download the data set for the exercise from the course web page onto your laptop. The data is contained in an excel workbook. The data in the workbook were obtained from Fred, the data resource at the Federal Reserve Bank of St. Louis web site (<http://research.stlouisfed.org/fred2/>).
2. Bring your lap top to recitation so that you can follow along as your teaching assistants guide you in answering some of the questions.
3. Complete the exercise on your own

Questions to Answer Using GDP Data

The "GDP Data" sheet in the workbook contains quarterly observations for Nominal (current dollar) Gross Domestic Product, Real (Year 2000 Dollar) Gross Domestic Product, and a Chain-Type GDP Deflator (Index of Prices). To complete this exercise you will use only the data in the GDP data sheet and not the data in the other two sheets.

1. Graph GDP and RGDP against time (either the date variable or a variable that is 1 in the first quarter, 2 in the second quarter, and so on. Describe the shapes of the graphs.
2. Create series that are the natural logarithms of GDP and RGDP. Graph these series against time. What are the shapes of these graphs? The graph options allow you to display a trend for each series. Do so.
3. Use information from the graphs to estimate the annual growth rate of RGDP over the period 1947:1 to 2008:2.
4. Use the data for GDP and RGDP to compute the implicit GDP price deflator. Recall that $GDP = P \times RGDP$. How closely does the implicit deflator agree with the Chain Index Deflator present in the worksheet?
5. Graph P (Chain Index Deflator) against time. Use the graph to identify episodes of high and low inflation. What sort of inflation experience have we had since 2000?

Questions to Answer Using the GDP Components Data

The “GDP Components” sheet in the workbook contains quarterly observations for Real Consumption, Real Gross Investment, Real Government Spending and Real Net Exports.

1. How closely does the sum of the four expenditure components approximate RGDP?
2. Compute the share of RGDP accounted for by each component. Use the data to identify some interesting trends in expenditures that have occurred in the past sixty years.

Questions to Answer Using the Monthly Data for CPI, the Unemployment Rate, and Money

1. Use the CPI data and the Money Stock data to compute monthly series for inflation (the growth in the CPI) and money growth. Graph the resulting series. Is there an interesting relationship between money growth and inflation revealed in the data? What is it?
2. Graph inflation and the unemployment rate. Is there an interesting relationship between those two series?

Enter your answers to these questions in your course journal.