

Finance 30220
Quiz #2 Solutions

Name _____

Section _____

2) Suppose that you have the following information on an economy:

- Gross Domestic Product: \$14,000
- Government Purchases: \$3,000
- Tax Revenues: \$1,500
- Net Exports: -\$800
- Net Factor Payments: \$125
- Consumption Expenditures: \$10,500
- Depreciation: \$1,800
- Indirect Taxes: \$0

Find national income, private savings, and gross investment

$$\text{National Income} = \text{GDP} + \text{NFP} - \text{Depreciation} - \text{Indirect Taxes}$$

$$= 14,000 + 125 - 1,800 - 0 = 12,325$$

$$\text{Private Savings} = \text{National Income} - \text{Taxes} - \text{Consumption}$$

$$= 12,325 - 1,500 - 10,500 = 325$$

$$\text{Gross Investment} = \text{GDP} - \text{Consumption} - \text{Government Purchases} - \text{Net Exports}$$

$$= 14,000 - 10,500 - 3,000 - (-800) = 1,300$$