

## Short Answer Questions

### Chapter 23.

1. Sketch out a circular flow of income diagram and include on it leakages in the form of taxes, imports and saving and injections – government spending, investment and exports.
2. With regard to the measure of national income, explain why, in theory, national income should equal national expenditure which should also equal national output.
3. To what extent would you consider the setting up of regulatory bodies an appropriate and effective solution to the principal-agent problem in markets where there is a natural monopoly?
4. Why does gross domestic product measure the *final* value of goods and services produced in a country over a given period of time?
5. What is the difference between gross national product and net national product?
6. What are the main components of GDP. Do some research using national statistics offices to find out the approximate size of each component in the country in which you are studying.
7. Using an appropriate numerical example, explain the difference between real and nominal GDP. Why do economists tend to use real GDP figures in assessing the performance of the economy?
8. What is the difference between using a measure of inflation such as the consumer prices index (CPI) and the GDP deflator. Which do you think is the more accurate measure of price changes in an economy?
9. Despite considerable increases in real GDP over the last 50 years, measures of happiness do not seem to have improved. What reasons can be put forward to explain this apparent contradiction?
10. Is GDP the best measure of economic well being? Justify your answer.