

Homework 4

1. If, in average, real GDP grows at 6% a year, money supply grows 10% a year, money velocity declines 2% a year, then what is the average annual inflation rate?
2. The following table lists some exchange rates and Big-Mac prices. Use the theory of purchasing-power parity to fill in the blanks with a number or “?” if the figure cannot be inferred from the information.

Country	Currency	Big-Mac price	Exchange rate (per US dollar)	
			Predicted (PPP)	Actual
USA	Dollar	5		
China	Yuan	20		7
Japan	Yen		75	100
UK	Pound	4	0.8	