

ECON 202
Nominal and real GDP

1. Assume a 3-good country called Beauty-Land shown in Table 1 (P: unit price, Q: quantity).

Table 1

| | 2003 | | 2004 (Base year) | |
|------------|-------------|----------|-------------------------|----------|
| | P | Q | P | Q |
| Lipstick | \$10 | 10 | \$15 | 5 |
| Eye shadow | \$5 | 20 | \$10 | 15 |
| Mascara | \$8 | 5 | \$4 | 15 |

- a. Did Beauty-Land experience economic growth in nominal terms during the period 2003-2004?
- b. Did Beauty-Land experience economic growth in real terms during the period 2003-2004?
- c. Solve (a) and (b) assuming 2003 as the base year. Compare your answers. What happens when you change the base year?
- d. Calculate the growth rate of Beauty-Land using the chain index.