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**WORKSHEET 7**  
**LESSON NOTES**

**School: Ba Sangam College**  
**Subject: Economics**

**Year: 11**

**Name: \_\_\_\_\_**

<b>Strand 3</b>	Macroeconomics
<b>Sub Strand 3.1</b>	National Income
<b>Content Learning Outcome EC11.3.1.1</b>	Describe and calculate different concepts used in National Income.

**Consumer Price Index** is a weighted price index and is used to measure changes in the general price level for goods purchased by the average Fijian households.

**Procedures Involved in Compiling the CPI**

- Select the base year and prices of all other years are compared to the base year price.
- Select a basket of goods. The basket will consist of a list of goods purchased by average households.

**Limitation of C.P.I**

It does not take into account the market basket of goods and services purchased by all families in the economy.

**Measures of C.P.I**

It measures the cost of living and calculates inflation rate of the country.

**Calculation of CPI**

Use the table given below and your own knowledge to answer questions (i) and (ii)

<b>Commodities &amp; Quantity(Base year)</b>	<b>Price Per Unit (Base Year)</b>	<b>Price Per Unit (Current Year)</b>
Chicken (5 units # 12)	\$11.00	\$12.00
Rice (5 kg)	\$0.90	\$1.20
Juice (5 bottles)	\$ 1.80	\$1.90

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Calculate the following: (Show all working)  
 (i) Consumer Price Index (CPI) for the current year.

$$\begin{aligned}
 \text{CPI} &= \frac{\sum \text{Base Year Quantity} \times \text{Current Year Price}}{\sum \text{Base Year Quantity} \times \text{Base Year Price}} \times 100 \\
 &= \frac{[(12 \times 5) + ((1.20 \times 5) + (1.90 \times 5)] \times 100}{[(11 \times 5) + ((0.90 \times 5) + (1.80 \times 5))]} \\
 &= \frac{75.50 \times 100}{68.50} \\
 &= 110.22
 \end{aligned}$$

(ii) Rate of Inflation over the period.

$$\begin{aligned}
 \text{Rate of Inflation} &= \frac{\text{CPI 2} - \text{CPI 1}}{\text{CPI 1}} \times 100 \\
 &= \frac{110.22 - 100}{100} \times 100 \\
 &= 10.22 \%
 \end{aligned}$$

**Importance of Real GDP**

1. It helps in correcting national income for price changes.

2. It enhances international comparison. But inter-country comparison has some complications.

**Activity**

1. The total value of all goods and services produced within Fiji in a single year is the \_\_\_\_\_

2. The general rise in the price level is known as \_\_\_\_\_ (2 marks)

3. Define the following terms:

a) **Consumer Price Index** \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

b) **National income** \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

c) **Nominal GDP** \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

(3 marks)

4. State a limitation of C.P.I

\_\_\_\_\_  
 \_\_\_\_\_

(1 mark)

5. State the other name for

GDP at Current Price \_\_\_\_\_

GDP at Constant Price \_\_\_\_\_

(2marks)

6.

Factors of Production	Factor Return
1. _____	1. _____

2. Labour	2. _____
3. _____	3. _____
4. _____	4. Profit

(6marks)

7. The table below shows the respective Gross Domestic Product (GDP) for the Bula Economy. Use the information and your own knowledge to answer questions (i) to (iii) which follow.

YEAR	PRICE INDEX	NOMINAL GDP (\$M)	REAL GDP (\$M)
1999	1000	(a)	14889
2000	3267	59,257	(b)
2001	3500	80,500	23000

(i) Complete the table above by filling in parts

(a) \_\_\_\_\_

(b) \_\_\_\_\_ (2 marks)

(ii) Give a reason for the low values of Real GDP in relation to Nominal GDP.

\_\_\_\_\_  
 \_\_\_\_\_ (1 mark)

8. Suppose there are only 2 goods bought by households, use the information in the table below to answer the question which follows.

Goods	Quantity Bought (Base Year)	Price Per Unit (Base Year)	Price Per Unit (Current Year)
Jeans	1000 pairs	\$20.00	\$30.00
Exercise Books	2000 books	\$1.50	\$2.00

Calculate the Consumer Price Index (CPI) for the current year. (Show all working)