Econ 102
January 26, 2007
Quiz #1A

In 2006, the University of Michigan purchased a new research laboratory for $1 million dollars. The laboratory will be used to discover new drugs. The laboratory was constructed in the U.S. using $400,000 worth of components, which were imported from Canada in 2006. The Canadian components were produced from $200,000 of raw materials, which were manufactured in Mexico in 2005 and exported to Canada in 2006. Also in 2006, a group of 100 UM students traveled to Mexico during spring break. They spent a total of $10,000 on their hotel rooms, plus another $20,000 on food and beverages. Everyone used US Dollars in all transactions.

Please compute the total contributions of these transactions to Gross Domestic Product, Net Exports, Investment, Consumption and Government Purchases for the U.S., Canada. and Mexico in 2006.

U.S.:
+ 1 million Investment (the lab will be used to produce other goods)
-400,000 NX, -30,000 NX (parts from Canada, spending on goods and services in Mexico)
+ 30,000 C (spending on goods and services)

Total: + 600,000 in U.S. GDP

Canada:
+ 400,000 NX (export components to U.S.)
-200,000 NX (import raw materials from Mexico)

Total: + 200,000 in Canadian GDP

Mexico:
-200,000 Inventory (materials produced in 2005 and added to inventory in 2005, taken out of inventory in 2006)
+200,000 NX (materials exported to Canada)
+30,000 NX (UM student purchases of Mexican goods and services)

Total: +30,000 in Mexican GDP