1) A 2-Litre bottle of Coca-Cola costs an average of $1.45 in the United States and €3.05 in Europe. The current exchange rate for Euro is $1.33 per Euro. The US consumes 14.9B 2-Litre bottles every year while Germany consumes 1.8B 2-Litre bottles.

   a) Using the market exchange approach, calculate the dollar value of Coca-Cola consumption in the US and Germany.

   US: 14.9B * $1.45 = $21.6B
   Germany: 1.8B * €3.05 * 1.33 ($/E) = $7.3B

   b) Repeat part (a) using the purchasing power parity approach (PPP) approach.

   US: 14.9B * $1.45 = $21.6B
   Germany: 1.8B * $1.45 = $2.61B

2) Using the PPP approach, GDP for the country of Syria was valued at $108B. However, using the market exchange rate we get a value of $65B for the Syrian economy. What does this information tell us about the Syrian Pound (i.e. overvalued, undervalued, or fairly valued)? Explain?

   *If the Syrian pond were fairly priced, goods should sell for the same price in both the US and Syria and the GDP figures should be the same. Since the market exchange approach yields a much smaller number, the Syrian pound seems undervalued.*

3) The Gini coefficient in the US has increased by close to 20% since the mid-70s (from .39 to .47). What does this tell us about the US economy?

   *It tells us that income inequality has been increasing.*