

Chapter 8

Measuring the Economy's Performance

8.1 The Simple Circular Flow

- 1) The simple circular flow of income shows that the total income in an economy equals
- A) total profits earned by firms.
 - B) all taxes paid by households.
 - C) the total amount of money supplied by the government.
 - D) total expenditures.

Answer: D

Diff: 2

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: New

- 2) The observation that goods and services flow in one direction and money payments flow in another direction is the principle behind
- A) the double coincidence of wants.
 - B) a barter economy.
 - C) a pure command economy.
 - D) the circular flow of income.

Answer: D

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 3) Which of the following is true about *product markets*?
- A) Goods and services flow from households to firms.
 - B) Goods and services flow from firms to households.
 - C) Factors (land, labor, capital, and entrepreneurial ability) flow from households to firms.
 - D) Factors (land, labor, capital, and entrepreneurial ability) flow from firms to households.

Answer: B

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 4) According to the circular flow, the dollar value of a nation's output is equal to
- A) profits.
 - B) total income.
 - C) net income minus taxes.
 - D) wages.

Answer: B

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 5) In the factor market, households
- A) sell resources.
 - B) buy resources.
 - C) are neither buyers nor sellers of resources.
 - D) are both buyers and sellers of resources.

Answer: A

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Suppose an individual buys a new CD of her favorite musical artist. This purchase has taken place in the
- A) product markets.
 - B) factor markets.
 - C) labor markets.
 - D) resource markets.

Answer: A

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 7) In the product markets, households
- A) are the buyers of goods and services.
 - B) are the sellers of resources.
 - C) are neither buyers nor sellers in the market.
 - D) none of the above is correct.

Answer: A

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Which of the following would most likely be sold in the product markets?
- A) A new car
 - B) Stocks and bonds
 - C) Iron ore
 - D) Entrepreneurial ability

Answer: A

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 9) The value of total output and total income in the simple circular flow model
- A) are measures of the economy's level of savings.
 - B) include only intermediate goods.
 - C) are equal to each other.
 - D) are related in the sense that national income is less than national product.

Answer: C

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

10) Which of the following statements is FALSE?

- A) One definition of total income is that it is the annual cost of producing the entire output of final goods and services.
- B) Transactions in which households buy final goods and services occur in the factor market.
- C) The value of total output is identical to total income.
- D) Saving is the difference between consumer income and expenditures.

Answer: B

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

11) Which of the following statements is FALSE?

- A) The value of total income is equal in value to total output because profit is a cost of production.
- B) In the circular flow model, households sell factor services to businesses in return for factor payments.
- C) Businesses sell goods and services to households who use their income to pay for them.
- D) Total income is always greater than total output.

Answer: D

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

12) Which of the following is consistent with the circular flow of income?

- I. Goods and services flow in one direction.
- II. Payments and incomes flow in one direction.
- III. Sellers receive less than what buyers spend.

- A) I only
- B) II only
- C) III only
- D) Both I and II

Answer: D

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

13) According to the circular flow, the value of total output produced and total income

- A) should differ by the value of intermediate goods.
- B) should increase by the unanticipated rate of inflation.
- C) will always be increasing in a capitalist economy.
- D) will be equal.

Answer: D

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 14) One of the principles behind the concept of the circular flow is that
- A) in every economic exchange, the seller receives exactly the same amount that the buyer spends.
 - B) in every economic exchange, the seller receives less than the amount that the buyer spends.
 - C) the seller of goods receives exactly the same amount that the buyer spends, but the seller of resources receives less than the buyer spends.
 - D) in exchange involving products, the seller receives less than the amount the buyer spends, but in resource markets the seller receives more than the buyer spends.

Answer: A

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 15) The circular flow of income shows
- A) goods, services, and money payments flowing in the same direction.
 - B) goods and money payments flowing in one direction and services flowing in the opposite direction.
 - C) goods and services flowing in one direction and money payments in the other direction.
 - D) goods flowing in one direction and services and money payments flowing in the other direction.

Answer: C

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 16) In the simple circular flow model,
- A) households spend the income they receive from labor services but save the income they receive from selling the other factors of production.
 - B) businesses buy labor services from households, but supply other factors of production themselves.
 - C) households spend their entire income on consumer products.
 - D) profits are a type of income that is not received by households.

Answer: C

Diff: 2

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 17) In the circular flow model, profits are considered to be
- A) a subtraction from the Gross Domestic Product (GDP).
 - B) a cost of doing business.
 - C) equal to zero, or else the circular flow would be out of balance.
 - D) a form of interest payment.

Answer: B

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Economists consider profit to be
- A) a cost of producing goods and services.
 - B) the same as a salary.
 - C) a reward for incurring losses.
 - D) something that should be eliminated by antitrust laws.

Answer: A

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 19) Profits represent
- A) the income earned from a bond.
 - B) the payments firms make to their employees.
 - C) a reward to entrepreneurs.
 - D) the difference between total tax revenue and total government spending.

Answer: C

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 20) How do economists view profits?
- A) Profits are an asset the business holds.
 - B) Profits are one of the costs paid to a factor of production.
 - C) Profits are guaranteed as long as a firm operates ethically.
 - D) The firm's profit equals the sum of all payments to the 5 factors of production.

Answer: B

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

21) In the circular flow, _____ provide the factor services.

- A) households
- B) businesses
- C) producers
- D) businesses and households

Answer: A

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

22) The circular flow of income involves the idea that

- A) in every economic exchange one party takes advantage of the other party.
- B) the seller of a good receives less than the buyer spends.
- C) the seller of a good receives more than the buyer spends.
- D) the seller of a good receives exactly the same amount as the buyer spends.

Answer: D

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Revised

23) The circular flow of income shows

- A) the dollar value of output is less than the total income.
- B) the dollar value of output is more than the total income because of the existence of profits.
- C) the dollar value of output is exactly equal to the total income.
- D) the dollar value of output is more or less than the total income, depending on whether profits are positive or negative.

Answer: C

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

24) The circular flow of income assumes that

- A) profit is not a cost of production.
- B) the national income accounting approach is not an adequate way to measure the economy's performance.
- C) goods and services flow in one direction and money payments flow in the other.
- D) total income is the sum of the value of intermediate goods and final goods and services.

Answer: C

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

25) In the circular flow model,

- A) households demand goods and services which are supplied by firms, and the firms demand resources that are supplied by intermediate firms.
- B) households demand goods and services that are supplied by firms, while supplying resources that are demanded by firms.
- C) households buy goods and services and firms supply goods. Resources are supplied by other firms.
- D) households buy goods and services while firms sell goods and services. Firms obtain labor from households, capital from government, and raw materials from firms.

Answer: B

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Revised

26) Goods and services are sold

- A) in the product markets.
- B) in the factor markets.
- C) by households.
- D) only as intermediate goods.

Answer: A

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

27) Resources can be purchased

- A) in the product markets.
- B) in the factor markets.
- C) exclusively through the government.
- D) at a grocery store.

Answer: B

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

28) Total income

- A) is the yearly amount earned by owners of the nation's resources.
- B) includes only wages received by workers.
- C) includes only wages and interest payments.
- D) excludes profits.

Answer: A

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 29) The amount earned by owners of the nation's factors of production is
- A) the wages and fringe benefits received by the nation's workers.
 - B) all profits received by businesses.
 - C) total income.
 - D) private and government transfer payments.

Answer: C

Diff: 2

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 30) Profits
- A) are a cost of doing business because entrepreneurs would not incur the risk of starting a business if they didn't expect to earn profits.
 - B) are a cost of doing business because they are payments to others.
 - C) are not a cost of doing business because they are owed to resource owners.
 - D) are not a cost of doing business because they are often zero or negative.

Answer: A

Diff: 2

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 31) Which of the following statements is true about profits?
- A) Profits are excluded from the circular flow of the income diagram.
 - B) The only portion of profits that are included in the circular flow diagram are the portion paid out in the form of dividends.
 - C) Profits are considered one of the resources necessary for production.
 - D) Profits are considered a cost of doing business.

Answer: D

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 32) Total income is defined as
- A) the total receipts of firms before taxes.
 - B) the total amount earned by all resource owners.
 - C) the sum of the total receipts of firms and the amount earned by households.
 - D) the sum of the total receipts of firms less the amount of tax that must be paid.

Answer: B

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 33) All of the following are incomes earned in the factor market EXCEPT
- A) wages.
 - B) prices of goods and services.
 - C) profits.
 - D) rents.

Answer: B

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: New

- 34) The annual cost of producing the entire output of goods and services in the economy
- A) includes financial transactions.
 - B) can be calculated entirely on the basis of financial transactions.
 - C) includes durable goods but excludes nondurable goods.
 - D) is total income.

Answer: D

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 35) Households receive their income in the circular flow diagram by
- A) selling the use of their property.
 - B) selling the goods they produce at home.
 - C) obtaining dividends and interest payments.
 - D) selling resources they own to business firms.

Answer: D

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 36) In the simple circular flow model, the funds received by a carmaker when it sells a car goes to
- A) the workers who helped build the car.
 - B) the owners of firms who sold materials to the carmaker, and the rest stays with the firm.
 - C) only the owners of the carmaker.
 - D) the owners of all of the resources used to make the car.

Answer: D

Diff: 2

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 37) Which of the following is NOT a final good or service?
- A) an automobile
 - B) bread
 - C) flour
 - D) a cookie

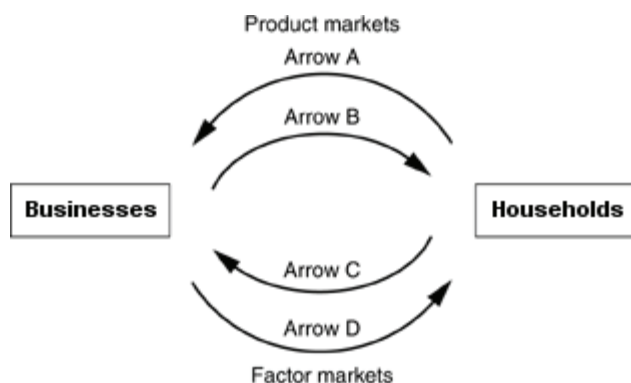
Answer: C

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition



- 38) Refer to the above figure. The top two arrows of the figure refer to the product markets. The bottom arrows refer to the factor markets. Which arrow represents the total monetary value of all goods and services?

A) Arrow A B) Arrow B C) Arrow C D) Arrow D

Answer: A

Diff: 3

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 39) Refer to the above figure. The top two arrows of the figure refer to the product markets. The bottom arrows refer to the factor markets. Which arrow represents the final consumer goods and services?

A) Arrow A B) Arrow B C) Arrow C D) Arrow D

Answer: B

Diff: 3

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 40) Refer to the above figure. The top two arrows of the figure refer to the product markets. The bottom arrows refer to the factor markets. Which arrow represents factor services?

A) Arrow A B) Arrow B C) Arrow C D) Arrow D

Answer: C

Diff: 3

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 41) Refer to the above figure. The top two arrows of the figure refer to the product markets. The bottom arrows refer to the factor markets. Which arrow represents total income?

A) Arrow A B) Arrow B C) Arrow C D) Arrow D

Answer: D

Diff: 3

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

42) Refer to the above figure. Which arrows represent items that are measured in dollar terms?

- | | |
|-------------------|-------------------|
| A) Arrows A and B | B) Arrows C and D |
| C) Arrows A and D | D) Arrows B and C |

Answer: C

Diff: 3

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

43) Refer to the above figure. Which arrows represent items that are not measured in dollar terms?

- | | |
|-------------------|-------------------|
| A) Arrows A and B | B) Arrows C and D |
| C) Arrows A and D | D) Arrows B and C |

Answer: D

Diff: 3

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

44) A firm produces a good and generates \$5 million in receipts. Wages are \$3 million, rent is \$500,000, and interest payments are \$1 million. Then

- A) profits are \$500,000, the cost of production is \$4.5 million, and households receive income equal to \$4.5 million.
- B) profits are \$500,000, the cost of production is \$5 million, and households receive income equal to \$4.5 million.
- C) profits are \$500,000, the cost of production is \$5 million, and households receive income equal to \$5 million.
- D) profits are \$500,000, the cost of production is \$5 million, and households receive income equal to \$3.5 million.

Answer: C

Diff: 3

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

45) Households receive a total income of \$5 million. Of this, \$3.5 million are wages received for labor services, \$1 million are rental payments, and \$250,000 are interest payments received. What are the costs of production and profits equal to respectively?

- | | |
|------------------------------|---------------------------|
| A) \$5 million; \$500,000 | B) \$5 million; \$250,000 |
| C) \$4.75 million; \$250,000 | D) \$4.75 million; 0 |

Answer: B

Diff: 3

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 46) The dollar value of final output
A) is less than total income.
C) is greater than total income.

- B) is equal to total income.
D) equals profits.

Answer: B

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 47) Which of the following statements is NOT true about the relationship between the dollar value of total output and total income?

- A) The dollar value of total output equals total income because the spending of one group is the income of another.
B) The dollar value of total output equals total income because profit is considered a cost of production.
C) The dollar value of total output equals total income because profit is not considered a cost of production.
D) The dollar value of total output equals total income because of the economic definition of profit.

Answer: C

Diff: 2

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 48) How much of each dollar spent by a consumer ultimately becomes income to someone else?

- A) 100 percent
B) 67 percent
C) It depends on how much labor was needed to produce the good the consumer buys.
D) It depends on how much overhead there is in the distribution channel that delivers the good from the manufacturer to the consumer.

Answer: A

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

- 49) The two sectors of the economy in the simple circular flow model are

- A) the employed and the unemployed.
C) households and businesses.
- B) foreign markets and domestic markets.
D) the private sector and the public sector.

Answer: C

Diff: 2

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

50) In the simple circular flow model, total income in the United States must equal

- A) wages + rents + interest + profits.
- B) the total monetary value of all final goods and services.
- C) the yearly amount earned by our nation's resources.
- D) All of the above are correct.

Answer: D

Diff: 2

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

51) Which of the following would most likely be defined as a final good or service?

- A) iron ore
- B) wheat
- C) a personal computer
- D) lumber

Answer: C

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

52) In the simple circular flow,

- A) businesses trade goods and services for resources in the product market.
- B) consumers trade resources for goods and services in the factor market.
- C) consumers trade goods and services for monetary payments in the factor market.
- D) producers trade goods and services for monetary payments in the product market.

Answer: D

Diff: 2

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

53) In the product market,

- A) businesses trade goods and services for resources.
- B) consumers trade resources for goods and services.
- C) consumers trade goods and services for resources.
- D) consumers trade monetary payments for goods and services.

Answer: D

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

54) Which of the following occurs in the factor market?

- A) firms exchange goods and services for resources.
- B) households exchange resources for goods and services.
- C) households exchange money for goods and services.
- D) firms exchange money for resources.

Answer: D

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

55) Profits are part of the

- A) total income.
- B) monetary value of output.
- C) final consumer goods.
- D) factor services.

Answer: A

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

56) Explain the concept of the circular flow.

Answer: The circular flow refers to the interrelationships between income and output. In every exchange the seller receives exactly what the buyer pays. This also means that someone's receipt is someone else's payment. Goods and services flow in one direction and money payments in the other. The total income received by people must equal the total spending of people. Businesses provide goods and services and sell them to households, and households provide the resources used by firms in exchange for income.

Diff: 2

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

57) Why must total income be identical to the dollar value of total output?

Answer: Total income must be identical to the dollar value of total output because spending by one person is income for another. Further, the definition of profit is important. Profit is the amount left over from total business receipts after all other costs have been paid. Hence, profit is the residual that makes total income equal to the dollar value of total output.

Diff: 2

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

58) Where does profit enter in the circular flow? Why?

Answer: Profit is a payment made to entrepreneurs just as wages are a payment made to labor. Entrepreneurs must be rewarded for providing their services, and profit is the reward. Hence, profit is a cost of production.

Diff: 1

Topic: 8.1 The Simple Circular Flow

AACSB: Analytic skills

Question Status: Previous Edition

8.2 National Income Accounting

- 1) The dollar value of total output
- A) equals the value of all physical goods sold in the United States.
 - B) equals the market value of all final goods and services produced in the United States.
 - C) equals only the value of stocks on the New York Stock Exchange.
 - D) equals only the value of new services in the economy.

Answer: B

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 2) The measurement system used by the U.S. government to estimate national income is
- A) the GDP deflator.
 - B) national income accounting.
 - C) the sum of financial transactions, transfer payments and secondhand goods.
 - D) the sum of consumption plus investment expenditures.

Answer: B

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 3) The approach used in the U.S. to measure the economy's aggregate performance is
- A) national income accounting.
 - B) to add up the value of intermediate goods.
 - C) the total value of securities.
 - D) to add up the total value of financial transactions, transfer payments, and secondhand goods.
 - E) all of the above

Answer: A

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 4) Which of the following would be included in the calculation of Gross Domestic Product (GDP)?
- A) The value of transfer payments
 - B) The value of the sale of a used guitar
 - C) The value of the sale of 1,000 shares of IBM stock
 - D) The value of spending on new machinery and equipment

Answer: D

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

5) U.S. Gross Domestic Product (GDP) does NOT include which of the following?

- A) business investment
- B) the value of goods produced in Canada by U.S. owned firms
- C) net exports
- D) the purchase of all final goods and services by U.S. households

Answer: B

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

6) Which of the following best describes a nation's Gross Domestic Product?

- A) The market value of all goods and services produced in the economy, including intermediate goods
- B) The total market value of all final goods and services produced in the economy during a year
- C) The constant dollar value of all goods produced in the economy during a year period
- D) The market value of all goods and services less depreciation

Answer: B

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

7) The total market value of final goods and services produced in an economy during a one-year period is

- A) Gross Domestic Product.
- B) net national product.
- C) profit.
- D) personal income.

Answer: A

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

8) Gross Domestic Product measures

- A) the total value of labor used in the economy.
- B) the total market value of final goods and services produced within a nation's borders.
- C) the total income received by residents of a nation.
- D) the total worth of all goods consumed within the borders of a nation.

Answer: B

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Gross Domestic Product is best defined as
- A) the total market value of all final goods and services produced during a year by factors of production located within a nation's borders.
 - B) the total market value of all intermediate goods and services produced during a year by factors of production located within a nation's borders.
 - C) the value added to all goods produced in an economy during a year.
 - D) the total market value of all final goods and services that exist in an economy at a given point in time.

Answer: A

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Revised

- 10) Suppose the total value of all assets in the United States is \$10 trillion. In 2010, the total value of all final services produced in the United States was \$150 billion, the total value of all final goods produced in the United States was \$350 billion, and the total value of all final goods and services produced by American firms in other countries was \$100 billion. In this situation, Gross Domestic Product for 2006 was
- A) \$600 billion.
 - B) \$510 billion.
 - C) \$500 billion.
 - D) \$10.5 trillion.

Answer: C

Diff: 3

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Revised

- 11) Which of the following transactions is included in Gross Domestic Product?
- A) A Social Security check received by a retired couple
 - B) A gift card that a mother gives her son
 - C) A used textbook that one student gives another student in exchange for an iPod
 - D) Tips received by a waitress who reports them to the IRS

Answer: D

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Revised

- 12) Which of the following is **included** in determining Gross Domestic Product?
- A) The purchase of a new car
 - B) The purchase of a used car
 - C) A housewife preparing breakfast
 - D) A gardener canning vegetables for consumption during the winter

Answer: A

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 13) Goods that are used up entirely in the production of final goods are known as
- A) durable goods.
 - B) value added goods.
 - C) intermediate goods.
 - D) capital goods.

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 14) Which of the following would be included when calculating Gross Domestic Product?
- A) The purchase of a previously owned house for \$70,000
 - B) The purchase of a used \$10,000 automobile
 - C) A Social Security check for \$800
 - D) none of the above

Answer: D

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 15) Intermediate goods are NOT included in Gross Domestic Product (GDP) calculations because
- A) they are used in the production of final goods and would then be counted twice.
 - B) they are produced overseas.
 - C) they are made from foreign raw materials.
 - D) they have very low value added.

Answer: A

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 16) If Jack refinished his basement himself, the value of his work
- A) is not included in Gross Domestic Product (GDP).
 - B) is included in Gross Domestic Product (GDP).
 - C) is only included in Gross Domestic Product (GDP) if he uses U.S. made components.
 - D) is included in the next year's Gross Domestic Product (GDP).

Answer: A

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 17) Wheat used for producing bread is
- A) a final good.
 - B) not going to generate any employment.
 - C) an intermediate good.
 - D) a durable good.

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

18) Which of the following transactions would be included in the calculation of Gross Domestic Product (GDP)?

- A) The purchase of legal services
- B) The purchase of a share of stock in General Motors
- C) The purchase of wheat to make bread
- D) The purchase of a second-hand lawnmower from your neighbor

Answer: A

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

19) Which of the following is a final good?

- A) Seed used for corn
- B) Wheat used for bread
- C) Electricity used for producing automobiles
- D) A lawn mower purchased by a household

Answer: D

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

20) The farmer pays 20 cents for the seed that is sold to the miller for 35 cents; the miller makes flour and sells it to the baker for 55 cents. The baker makes bread and sells it to the grocery store for 80 cents and the store sells it to consumers for \$1.00. The contribution to Gross Domestic Product (GDP) is

- A) \$2.90.
- B) \$1.90.
- C) \$1.
- D) 20 cents.

Answer: C

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

21) A farmer buys seed for 20 cents that is used to grow wheat. The farmer sells the wheat to the miller for 35 cents, and the miller makes flour, which is then sold to the baker for 55 cents. The baker makes bread and sells it to the grocer for 80 cents, and the grocer sells the bread to a family for \$1. What is the value added of the baker and what is the sum of the value added at each stage of production?

- A) 80 cents; \$1
- B) 80 cents; \$2.90
- C) 25 cents; \$2.90
- D) 25 cents; \$1

Answer: D

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 22) The term "value added" refers to the dollar value of
- A) an industry's sales plus profits.
 - B) the intermediate goods and services purchased by an industry.
 - C) an industry's sales less the dollar value of the intermediate goods purchased by the industry.
 - D) the intermediate goods purchased by an industry plus the profits of the industry.

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 23) The owner of an oil well in Texas sells 1000 barrels of oil to a refinery in Mexico for \$12,000 for refining. This transaction
- A) will increase Gross Domestic Product (GDP) by \$12,000.
 - B) has no effect on Gross Domestic Product (GDP) because the refinery is in Mexico.
 - C) decreases Gross Domestic Product (GDP) because oil reserves have fallen by 1000 barrels.
 - D) has no effect on Gross Domestic Product (GDP) because this is the sale of an intermediate product.

Answer: D

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 24) Intermediate goods are goods that are used up entirely in the production of final goods. As such, intermediate goods
- A) are excluded in calculating Gross Domestic Product (GDP) because they are not valuable.
 - B) are excluded in calculating Gross Domestic Product (GDP) because to do so would be to double count them.
 - C) make up only a small portion of Gross Domestic Product (GDP).
 - D) are included in Gross Domestic Product (GDP) only if produced within the borders of the United States.

Answer: B

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 25) Why might a homemaker be upset with the way Gross Domestic Product (GDP) is calculated?
- A) Because the government always underestimates the dollar value of the household services produced at home and outside the market that are included in the Gross Domestic Product (GDP) statistic
 - B) Because household services produced at home and outside the market are only included in Gross Domestic Product (GDP) if the homemaker is a man
 - C) Because household services produced at home and outside the market that are sold to others are not included in Gross Domestic Product (GDP)
 - D) Because none of the household services produced for at home and outside the market are included in Gross Domestic Product (GDP) even though they contribute greatly to the welfare of the family

Answer: D

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 26) Social Security payments are
- A) included in Gross Domestic Product (GDP).
 - B) not included in Gross Domestic Product (GDP), but are included in Gross Domestic Income accounts.
 - C) not included in Gross Domestic Product (GDP).
 - D) not included in Gross Domestic Product (GDP), but are included in Net Domestic Product.

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 27) Which of the following statements is FALSE?
- A) Gross Domestic Product (GDP) measures the market value of final goods and services produced during a particular time period.
 - B) Transfers of used goods are not included in Gross Domestic Product (GDP).
 - C) Private transfer payments, such as an inheritance, are included in the Gross Domestic Product (GDP).
 - D) If statisticians counted intermediate goods, the estimate of Gross Domestic Product (GDP) would be too high.

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 28) A car sold from a used car lot
- A) would be counted in Gross Domestic Product (GDP).
 - B) would fall under net exports, and would then be counted in Gross Domestic Product (GDP).
 - C) would not be counted in Gross Domestic Product (GDP).
 - D) would only be counted in Gross Domestic Product (GDP) if it was a foreign made car.

Answer: C

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 29) Which of the following is included in Gross Domestic Product (GDP)?
- A) The buying and selling of securities
 - B) Government transfer payments
 - C) Private transfer payments
 - D) The sale of used goods
 - E) None of the above

Answer: E

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 30) A valid rationale for the decision NOT to include non-compensated housework in Gross Domestic Product (GDP) calculations is that
- A) it would decrease the employment rate for domestic work.
 - B) there is some difficulty in measuring quality and quantity.
 - C) it is not a product or service.
 - D) it would understate the value of production in the economy.

Answer: B

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 31) Which of the following is NOT included in the calculation of Gross Domestic Product (GDP)?
- A) The purchase of a raincoat by Mr. Z
 - B) Mrs. T's use of a lawyer
 - C) Mr. J's purchase of a share of General Motors stock
 - D) All of these would be included

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 32) The purchase of a share of stock is excluded in the calculation of Gross Domestic Product (GDP) because it
- A) is an intermediate good.
 - B) produces value added.
 - C) only represents the transfer of ownership rights.
 - D) is a final service and not a good.

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 33) Which of the following transactions would be included in Gross Domestic Product (GDP)?
- A) The purchase of new tires by a family to replace worn out tires on the family car
 - B) The purchase of a used car
 - C) The purchase of 100 shares of General Motors stock
 - D) The purchase of 2 grams of cocaine

Answer: A

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 34) If you buy stocks and bonds, the dollar value of those stocks and bonds is
- A) included in Gross Domestic Product (GDP) under investment.
 - B) included in Gross Domestic Product (GDP) under consumer expenditures.
 - C) not included in calculating Gross Domestic Product (GDP) for they merely represent a transfer of ownership.
 - D) included in Gross Domestic Product (GDP) if the stocks and bonds were issued by business firms but not if they were issued by governments.

Answer: C

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Revised

- 35) Gross Domestic Product (GDP) figures may understate the value of goods and services due to
- A) the exclusion of the underground economy.
 - B) the inclusion of household production.
 - C) the inclusion of legal non-reported, non-taxed income.
 - D) the exclusion of the value of stocks.

Answer: A

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 36) Which of the following would NOT be included in a nation's Gross Domestic Product (GDP)?
- A) The government purchases 100 new trucks for the Army.
 - B) The inventory of paper towels goes up.
 - C) A landlord rents an apartment.
 - D) In a poker game a student wins \$500 that he does not report as income.

Answer: D

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 37) National income accounting is
- A) how the amount of unemployment in the system is measured.
 - B) used only to determine the government deficit.
 - C) an approach to measuring an economy's aggregate performance.
 - D) the system that measures the value of the Dow Jones average.

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 38) Which of the following items are included in GDP?
- A) a used cars
 - B) all transactions involving bonds
 - C) all new homes
 - D) all food stamps

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 39) Which of the following is included in GDP?
- A) A computer manufacturer produces and sells a computer.
 - B) A woman mows her own yard and trims her own hedges.
 - C) An individual smuggles illegal drugs into the country and sells them.
 - D) An illegal gambling operation profits from secret betting activities.

Answer: A

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

40) Which of the following items is excluded from GDP?

- A) Services a barber performs in cutting hair
- B) Production and sale of hair-cutting equipment
- C) Services a barber performs in repairing his own hair-cutting equipment
- D) The construction of a new barbershop

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

41) Gross Domestic Product (GDP) is

- A) the total wholesale value of all final goods and services produced by factors of production owned by citizens of a nation.
- B) the total market value of all services produced by factors of production located within a nation's borders.
- C) the total market value of all goods produced within a nation's borders.
- D) the total market value of all final goods and services produced by factors of production located within a nation's borders.

Answer: D

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

42) The total value of all final goods and services produced by factors of production located within a nation's borders is

- A) GDP.
- B) NI.
- C) PI.
- D) net investment.

Answer: A

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

43) Suppose that in 2010, the total value of all final services produced in a nation was \$300 billion; the total value of all final goods produced in that nation was \$400 billion; and the total value of all final goods and services produced by that nation's firms in other countries was \$200 billion. Gross domestic product was

- A) \$600 billion.
- B) \$500 billion.
- C) \$900 billion.
- D) \$700 billion.

Answer: D

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Revised

44) GDP

- A) is a stock measure since it represents the total market value.
- B) is a flow measure since it represents the value of a flow of production over a year's period.
- C) is neither a stock or flow measure since it is measured in dollars.
- D) could be either a stock or flow measure depending upon whether it is measured in dollars or units of production.

Answer: B

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

45) GDP is a

- A) stock because it measures income for the entire country.
- B) stock because it measures wealth at a distinct point in time.
- C) flow because dollar values are used.
- D) flow because it measures income over a period of time.

Answer: D

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

46) When dealing with anything that is measured as a flow, one must

- A) use dollar values.
- B) make sure the thing can be measured accurately.
- C) specify a time period.
- D) specify one day in time.

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

47) Intermediate goods are

- A) goods that are used up entirely in the production of final goods.
- B) the stock of all resources excluding labor.
- C) goods that get sold to the U.S. government.
- D) equal to the receipts of firms.

Answer: A

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 48) GDP does NOT include intermediate goods because
- A) intermediate goods are not valuable.
 - B) intermediate goods are not useful to consumers.
 - C) that would count the value of intermediate goods twice.
 - D) that would understate the true size of GDP.

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 49) The farmer pays 15 cents for wheat seeds. When the wheat is grown and harvested, the farmer sells it to the miller for 30 cents, who makes flour and sells the flour to the baker for 60 cents. The baker makes bread and sells it to the grocer for 90 cents, and the grocer sells it to a family for \$1.25. The contribution to GDP is

- A) 35 cents.
- B) \$1.25.
- C) \$1.95.
- D) \$3.20.

Answer: B

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 50) Value added is
- A) the price of an intermediate product.
 - B) the amount of dollar value contributed to a product at each stage of its production.
 - C) the sum of the prices of intermediate products.
 - D) the dollar value contributed to a product at the last stage of its production.

Answer: B

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 51) The dollar value of an industry's sales minus the value of intermediate goods is
- A) GDP.
 - B) NDP.
 - C) transfer payments.
 - D) value added.

Answer: D

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 52) The total value added
- A) equals the retail price.
 - B) equals the wholesale price.
 - C) equals the sum of the prices on the intermediate goods.
 - D) equals the retail price less the wholesale price.

Answer: A

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

Stage of Production	Dollar Value of Sale	Value Added
		-----0.08
Stage 1	0.08	
Stage 2	0.10	
Stage 3	0.25	
Stage 4	<u>0.32</u>	
	0.75	

- 53) Refer to the above table. The production of this good goes through 4 different stages of production. What is the value added at Stage 2?
- A) \$0.02
 - B) \$0.08
 - C) \$0.10
 - D) \$0.75

Answer: A

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 54) Refer to the above table. The production of this good has been through the first 3 stages of production. What is the total value added in Stage 1 through 3?
- A) \$0.75
 - B) \$0.43
 - C) \$0.07
 - D) Cannot be computed without more information.

Answer: B

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 55) Refer to the above table. The production of this good goes through 4 different stages of production. What is the total dollar value added when production is completed?

A) \$0.07
B) \$0.32
C) \$0.75
D) Cannot be computed without more information.

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 56) Refer to the above table. The production of this good goes through 4 different stages of production. What does the total value added equal?

A) \$0.07
B) \$0.32
C) \$0.75
D) Cannot be computed without more information.

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 57) A farmer buys seed for 15 cents that is used to grow wheat. The farmer sells the wheat to the miller for 30 cents, who makes flour. The flour is sold to the baker for 60 cents and the baker makes bread, which is sold to the grocer for 90 cents. The grocer sells the bread for \$1.25. What is the value added for the miller?

A) 60 cents B) 45 cents C) 30 cents D) 90 cents

Answer: C

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 58) The production of a certain good involves 5 stages. The value added after the first stage of production occurs is \$1.20. The sale price of the good is \$2.50. What amount is used to measure GDP?

A) \$0.025 B) \$1.20 C) \$1.30 D) \$2.50

Answer: D

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 59) A farmer buys seed for 15 cents that is used to grow wheat. The farmer sells the wheat to the miller for 30 cents, who makes flour. The flour is sold to the baker for 60 cents and the baker makes bread, which is sold to the grocer for 90 cents. The grocer sells the bread for \$1.25. What is the value added for the grocer?

A) 15 cents B) 30 cents C) 35 cents D) \$1.25

Answer: C

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 60) A good goes through three stages of production. The value added at stage 1 is \$3; the value added at stage 2 is \$5; the value added at stage 3 is \$2. What is the retail price of the good?

A) \$2
B) \$10
C) \$20
D) Cannot be determined based on the information given.

Answer: B

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 61) Which of the following transactions would NOT be included in GDP?

A) the purchase of 100 shares of newly issued Microsoft stock
B) the purchase of a newly issued government bond
C) the purchase of previously issued corporate bond
D) all of the above

Answer: D

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 62) Which of the following transactions is included in GDP?

A) funds given to a college student by her parents
B) funds received by a college student for working in the college dining hall
C) funds given to a family on welfare
D) Social Security check received by an elderly couple

Answer: B

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

63) Which of the following is included in measuring GDP?

- A) The value added at each stage of production of a final product
- B) The buying and selling of securities
- C) The transfer of secondhand goods
- D) Household services rendered by homemakers

Answer: A

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

64) Which of the following items is included in GDP?

- A) The new car that James just bought
- B) The value of a stay-at-home mom
- C) Proceeds for a garage sale
- D) Purchase of a government bond

Answer: A

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

65) Which of the following items is NOT included in GDP?

- A) purchase of a hamburger at a fast-food restaurant
- B) sales at a grocery store
- C) sale of Microsoft stock
- D) downloads of new music albums charged to a credit card

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

66) GDP is a measure of all of the following EXCEPT

- A) the overall level of economic activity
- B) the total of production
- C) overall welfare
- D) the total value of expenditures

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: New

67) A family sells the house they have lived in for two years to a friend. They received \$150,000 and paid \$120,000 two years ago. This transaction

- A) increases GDP by \$150,000
- B) increases GDP by \$30,000
- C) has no effect on GDP because the house was not made this year
- D) has no effect on GDP because the house is an intermediate good

Answer: C

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

68) Which of the following statements is NOT true of GDP?

- A) GDP excludes nonmarket production.
- B) There are no significant weaknesses in using GDP as a measure of the nation's economic performance.
- C) GDP is the value of final goods and services produced in the economy.
- D) GDP is not a measure of a nation's overall welfare.

Answer: B

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

69) Which of the following is a significant weakness of GDP as a measure of the nation's economic performance?

- A) GDP excludes the secondhand good market because it is impossible to obtain an estimate of the amount sold.
- B) GDP excludes the value of the buying and selling of securities.
- C) GDP considers product and factor markets but not services.
- D) GDP excludes nonmarket production, such as black market activities.

Answer: D

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

70) GDP does NOT measure the well-being of a nation's residents because it

- A) excludes the sale of secondhand goods.
- B) excludes the value of intermediate goods.
- C) includes the value of final goods and services produced in the economy.
- D) excludes nonmarket transactions.

Answer: D

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

71) When considering GDP as a measure of the nation's economic performance, which of the following statements is NOT true?

- A) GDP is a good measure of a nation's overall welfare.
- B) GDP is useful to map changes in the economy's domestic economic performance over time.
- C) GDP is underestimated because it does not include illegal activities.
- D) GDP would be a better measure of economic performance if it included nonmarket activities.

Answer: A

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

72) Which of the following is a main limitation of GDP?

- A) GDP figures are grossly inaccurate due to sampling errors.
- B) The real definition of what is and is not included in GDP is unclear.
- C) GDP is not a good measure of a nation's overall welfare.
- D) GDP includes some products, which by their very nature are bad products, such as military weapons.

Answer: C

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

73) Which one of the following is NOT included in GDP?

- A) You pay a roofer \$3,000 to repair your roof after it is damaged in a hailstorm.
- B) You pay a roofer \$3,000 to repair your roof after you discover leaks have appeared due to normal wear and tear.
- C) You give up a weekend of leisure to repair your roof yourself.
- D) You purchase \$60 worth of first aid supplies at the local drugstore to treat the cuts and scrapes you suffered while crawling around on the roof.

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

74) Which one of the following is NOT included in GDP?

- A) You look after your neighbor's plants during her vacation in exchange for her agreement to feed your fish while you are gone.
- B) A homeowner hires a cleaning service to take care of household chores she chooses not to do because of the demands of her job.
- C) A bicycle manufacturer pays an advertising agency to develop a new promotional campaign.
- D) You purchase new tires for your old car.

Answer: A

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

75) Which of the following is included in GDP?

- A) A newly laid-off worker receives his \$400 unemployment compensation check from the state government.
- B) A college senior receives a \$1,000 graduation gift from a grandparent.
- C) You buy a \$12 snow shovel to have on hand for the next snow storm.
- D) You purchase \$300 worth of clothes from a thrift shop selling second-hand clothing.

Answer: C

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Revised

76) GDP is a measure of

- A) production.
- B) innovation.
- C) inflation.
- D) the amount of money available.

Answer: A

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Revised

77) The total market value of the nation's annual final products produced domestically best defines the

- A) GDP.
- B) GNP.
- C) CPI.
- D) PPI.

Answer: A

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

78) Gross domestic product is a measure of

- A) the total value of all transactions in U. S. markets.
- B) the added value of production.
- C) the dollar value of final goods and services produced in the United States.
- D) the dollar value of the aggregate measure of business as measured by the Dow Jones Industrial Average.

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

79) Which of the following is NOT included when calculating GDP?

- A) the dollar value of a new book
- B) the dollar value of a new iPod
- C) the dollar value of a newly issued corporate bond
- D) the dollar value of tuition expenditures at a community college

Answer: C

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

80) Which of the following is counted in the GDP in a given year?

- A) the sale of Microsoft stock
- B) the sale of a used Mustang convertible
- C) the dollar value of the housework done by a stay-at-home mom
- D) the sale of a new handmade ukulele

Answer: D

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Revised

81) Suppose you drive downtown, pay for parking at a private parking garage, and go to see an investment advisor. He charges you a \$100 fee to advise you to purchase 500 shares of stock, which you do. Which of these transactions is NOT included in GDP?

- A) the purchase of gas for the trip
- B) paying the parking fee
- C) paying the \$100 fee to the investment advisor
- D) your purchase of the stock

Answer: D

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

82) Which one of the following is NOT included in GDP?

- A) The federal government pays a defense contractor to develop a new weapons system.
- B) You volunteer to organize a neighborhood watch group on your block.
- C) You pay your monthly apartment rent.
- D) A mail-order firm constructs a new warehouse in Kansas as a central distribution facility.

Answer: B

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

83) National income accounting is

- A) used by businesses to calculate their profits during a given year.
- B) a system utilized to measure macroeconomic activity.
- C) a measure of consumer income.
- D) used by accountants to calculate the tax obligations of multinational corporations.

Answer: B

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

84) Gross domestic product is the

- A) market value of all intermediate and final goods produced in a year.
- B) market value of all final goods produced in a year.
- C) total spending in an economy in a year.
- D) value of total exports in a year.

Answer: B

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 85) The value added method of calculating GDP means
- A) adding up the market values of all intermediate goods.
 - B) calculating the percentage changes in the GDP between two years.
 - C) adding up the incomes of all businesses in a given year.
 - D) adding up the difference between the sale price and the value of intermediate goods of each product at every stage of production.

Answer: D

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 86) Your parents surprise you with a \$500 check. As a result, the U.S. GDP
- A) increases because this is unexpected income to you.
 - B) decreases because you will spend it on useless goods.
 - C) remains unchanged because it was counted when your parents earned it.
 - D) decreases because you have to pay taxes on this income.

Answer: C

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

Production Step	Sales Value/Textbook
Purchase of timber	\$2.50
Converting timber to paper	\$8.40
Shipping paper to printer	\$10.00
Printing	\$26.00
Shipping books to bookstores	\$32.00
Retail sales price of textbook	\$40.00

- 87) Using above table, how much is contributed to the GDP from the production of the textbook?
- A) \$118.90
 - B) \$32.00
 - C) \$78.90
 - D) \$40.00

Answer: D

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 88) Using above table, the market price of the textbook is
- A) \$118.90.
 - B) \$32.00.
 - C) \$78.90.
 - D) \$40.00

Answer: D

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

89) Consider the following:

Farmer Jones bought seed and fertilizer for \$100.

He grew wheat that he sold to the Acme Bread Company for \$200.

Acme Bread produced and sold bread to the ABC Grocery Store for \$250.

Consumers bought the bread from the grocery for \$350.

How much was added to the GDP?

- A) \$700 B) \$800 C) \$350 D) \$600

Answer: C

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

90) Which of the following transactions would NOT contribute to the GDP?

- A) the purchase of 100 shares of General Motors stock
B) the purchase of a new Chevrolet automobile
C) the purchase of a package of chewing gum from the convenience store
D) the purchase of gasoline for your automobile

Answer: A

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

91) Which of the following would NOT be included in the calculation of the GDP?

- A) the value of the service of legally produced gambling services in Las Vegas
B) the value of the services of a homemaker
C) the value of legally produced liquor
D) the value of the production of nuclear weapons

Answer: B

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

92) The Social Security check received by your grandmother

- A) is included in the GDP because it will be spent on goods and services.
B) is excluded from GDP calculations because including it would result in double counting.
C) is included in the GDP because she is entitled to it as a citizen.
D) is included in the GDP because it is part of her income.

Answer: B

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

93) Which of the following will be included in this year's GDP?

- A) a Pablo Picasso (1881–1973) painting purchased this year by the art museum
- B) the purchase of a used textbook by your friend
- C) the purchase of 100 shares of IBM stock through your broker
- D) the purchase of an insurance policy for a used car

Answer: D

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

94) GDP measures

- A) the nation's economic welfare.
- B) the nation's economic activity.
- C) the changes in the unemployment rate in a given year.
- D) the amount of underground activity in a nation.

Answer: B

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

95) GDP measures

- A) the annual total value of all services produced by factors of production located within a national border.
- B) the annual value of final goods and services produced by factors of production located within a national border.
- C) the annual value of goods and services produced by factors of production owned by companies headquartered in a given country.
- D) the value of all goods and services sold in a given country.

Answer: B

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

96) Goods used up entirely in the production of final goods are

- A) intermediate goods.
- B) production goods.
- C) process goods.
- D) inventory goods.

Answer: A

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 97) In calculating GDP, the value of intermediate goods is eliminated by using the
- A) distributive method.
 - B) value association method.
 - C) value added method.
 - D) Federal Reserve method.

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 98) The sum of the value added at all stages of production for a product is
- A) the product's final price.
 - B) the product's price plus the value of intermediate goods.
 - C) the product's price minus the value of intermediate goods.
 - D) the sum of all the transactions in the production of the product.

Answer: A

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 99) Which of the following transactions is included in GDP?
- A) sales of used goods
 - B) buying and selling of stocks and bonds
 - C) the sales of houses produced in that given year
 - D) government transfer payments

Answer: C

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 100) Consumption expenditures do NOT include purchases of
- A) durable goods.
 - B) nondurable goods.
 - C) intermediate goods.
 - D) services.

Answer: C

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 101) Many economists argue that real GDP is
- A) not a good measure of economic well-being because it overvalues increases in leisure time.
 - B) not a good measure of economic well-being because it excludes increases in leisure time.
 - C) a good measure of economic well-being because it includes increases in leisure time.
 - D) a good measure of economic well-being because it includes changes in personal safety.

Answer: B

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 102) Many economists argue that real GDP is not a good measure of economic well-being because
- A) it overvalues the increases in nonmarket transactions.
 - B) it excludes Social Security payments made to retirees.
 - C) it includes the taxes we pay to the federal government.
 - D) it excludes the environmental quality of life.

Answer: D

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 103) Which of the following transactions is included in the GDP?
- A) paying a lawyer to create a family trust
 - B) giving your friend \$20
 - C) selling your 2004 Toyota Camry
 - D) cleaning your house

Answer: A

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 104) Suppose you buy a new Honda Civic. The tires that come with the car are
- A) final goods.
 - B) intermediate goods.
 - C) transfer goods.
 - D) financial goods.

Answer: B

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 105) What is value added and how is it related to Gross Domestic Product (GDP)?

Answer: Value added is the dollar value of an industry's sales minus the value of intermediate goods used in production. Both Gross Domestic Product (GDP) and value added do not include the value of intermediate goods. Gross Domestic Product (GDP) can be calculated by adding up the value added at each stage of production.

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 106) Suppose Gross Domestic Product (GDP) figures were changed to reflect household production. How would the size of household production relative to Gross Domestic Product (GDP) have changed over the last fifty years?

Answer: The relative size of household production would be less as people have substituted market production for household production. Fifty years ago, people did not eat out as much as now. As the labor force participation rate of women has increased, families have relied less on household production and more on market production.

Diff: 3

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

107) Define and explain gross domestic product.

Answer: Gross domestic product is the total market value of all final goods and services produced by factors of production located within a country's borders. GDP does not count intermediate goods but counts only final goods and services. GDP is also measured for a given period of time, usually a year, so it is a flow concept. It also counts only market transactions, so the value of home production is not included.

Diff: 1

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

108) Why aren't financial transactions, sales of secondhand goods, and household production included in measuring GDP?

Answer: Financial transactions do not involve the production of final goods and services, so they are not included. Secondhand goods also were not produced in the relevant time period. They were counted in GDP when they were sold as new products. Hence, including them when they are not new would be double-counting them. Household production is not included because it is a nonmarket activity.

Diff: 2

Topic: 8.2 National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

8.3 Two Main Methods of Measuring GDP

1) The two principle methods of measuring Gross Domestic Product are the

- A) flow approach and the stock approach.
- B) expenditures approach and the income approach.
- C) intermediate approach and the value-added approach.
- D) domestic approach and the international approach.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

2) Which of the following statements is TRUE?

- A) The value of illegal activities is included in Gross Domestic Product (GDP).
- B) The value of a homemaker's services is included in Gross Domestic Product (GDP).
- C) The value of intermediate goods is included in Gross Domestic Product (GDP).
- D) Gross Domestic Product (GDP) may be calculated using the income or the expenditure approach.

Answer: D

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 3) Which one of the following statements about GDP is true?
- A) GDP can be calculated using the income approach.
 - B) The value of household production is excluded from GDP.
 - C) GDP can be calculated using the expenditures approach.
 - D) all of the above.

Answer: D

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 4) When we use the term fixed investment, we include in investment
- A) the purchase of stocks and bonds.
 - B) the purchase of consumer goods.
 - C) the purchase of private bonds, but not government bonds.
 - D) the purchase of equipment and other capital goods.

Answer: D

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 5) When one uses the *expenditure approach* to calculate Gross Domestic Product (GDP), which of the following would be included?
- A) government spending at the state level
 - B) household purchases of legal services
 - C) inventory investment
 - D) all of the above

Answer: D

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 6) Suppose that for the economy of Springfield, we have the following information for 2010: consumption expenditures = \$4,000; wages = \$3,500; gross private domestic investment = \$1,300; government expenditures = \$2,000; exports = \$900; imports = \$1,100. Using the *expenditure approach* what would the Gross Domestic Product (GDP) be for Springfield in 2010?
- A) \$6,200
 - B) \$7,100
 - C) \$7,500
 - D) \$10,600
 - E) \$12,800

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Revised

7) Which of the following spending components makes up the largest percentage of Gross Domestic Product (GDP)?

- A) Consumption expenditures
- B) Government expenditures
- C) Gross private domestic investment expenditures
- D) Expenditures on net exports of goods and services

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

8) Durable consumer goods include all of the following EXCEPT

- A) an automobile.
- B) stock in IBM.
- C) a computer.
- D) a compact disc player.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

9) Examples of nondurable consumer goods include all of the following EXCEPT

- A) a pizza delivered to your home.
- B) a cup of coffee.
- C) a stereo system.
- D) a ticket to the movies.

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

10) Services include all of the following EXCEPT

- A) payment for a doctor's visit.
- B) the purchase price of a share of stock.
- C) school tuition.
- D) payments for auto repair.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

11) Which of the following is an example of the gross private domestic investment component of Gross Domestic Product (GDP)?

- A) You buy a share of GM stock.
- B) GM buys a new drill press.
- C) You put money into your savings account.
- D) You put money into your checking account.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 12) Which of the following are examples of the gross private domestic investment component of Gross Domestic Product (GDP)?
- I. The purchase of production machinery
 - II. An increase in finished goods inventory
- A) I only B) II only C) Both I and II D) Neither I nor II

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 13) Which of the following is part of gross private domestic investment?
- A) Purchases of stocks and bonds
 - B) A decline in consumer debt
 - C) Purchases of hamburgers for a family dinner
 - D) A positive change in business inventories

Answer: D

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 14) Which one of the following is a durable consumer good?
- A) Furniture
 - B) Gasoline
 - C) Food
 - D) Office supplies that will be used up this year

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 15) When the total quantity of unsold new Chevrolets increases from 50,000 to 75,000,
- A) the economy experiences a period of disinvestment.
 - B) the economy's level of competition increases.
 - C) there is an increase in the rate of aggregate output.
 - D) the producer engages in an inventory investment.

Answer: D

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 16) Inventory investment occurs when
- A) grocers sell stocks of canned goods off their shelves.
 - B) individuals invest in an invention.
 - C) shopkeepers check their inventories.
 - D) automobile dealers add to their stocks of unsold cars.

Answer: D

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 17) Durable consumer goods are goods that
- A) last for more than three years.
 - B) last for more than one year.
 - C) are used up within three years.
 - D) are used up within one year.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Food and gasoline can be classified as
- A) nondurable goods.
 - B) durable goods.
 - C) capital goods.
 - D) long-term goods.

Answer: A

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 19) Calculating Gross Domestic Product (GDP) by the expenditure approach requires summing the value of
- A) all income paid to individuals.
 - B) all transactions in the economy.
 - C) all final goods and services produced in the economy.
 - D) all expenditures by individuals.

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 20) Which of the following is included in gross private domestic investment?
- I. The purchase of new capital goods
 - II. An increase in business inventories
- A) I only B) II only C) Both I and II D) Neither I nor II

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

21) If a firm produces more output than it sells, there will be

- I. An increase in the firm's inventories
 - II. An increase in the gross private investment of the nation
- A) I only B) II only C) Both I and II D) Neither I nor II

Answer: C

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

22) Fixed investment includes

- A) business spending on plant and equipment.
- B) business spending on printing paper.
- C) business salaries.
- D) labor union contracts.

Answer: A

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

23) Which of the following is an example of investment in computing Gross Domestic Product (GDP)?

- A) An increase of inventory stock in an auto dealership
- B) A deposit of \$2,000 in a bank
- C) A laptop purchased by a student
- D) The purchase of government bonds by a retiree

Answer: A

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: New

24) Which of the following is included in Gross Domestic Product (GDP)?

- A) Purchases of stocks and bonds by individuals
- B) Purchases of stocks and bonds by firms
- C) Sales of financial assets to foreign firms
- D) Investment spending on capital goods

Answer: D

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

25) Depreciation is

- A) added to Gross Domestic Product (GDP) to reach Net Domestic Product (NDP).
- B) the reduction in the value of capital goods due to physical wear and tear.
- C) not included in Gross Domestic Product (GDP) from the income side.
- D) always higher than the capital consumption allowance.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

26) Net domestic product (NDP) is

- A) Gross Domestic Product (GDP) minus depreciation.
- B) Gross Domestic Product (GDP) minus private investment.
- C) Gross Domestic Product (GDP) minus the foreign sector.
- D) Gross Domestic Product (GDP) minus government transfers.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

27) The components of the expenditure approach to measuring Gross Domestic Product (GDP) include all of the following EXCEPT

- A) government purchases of goods and services.
- B) government Social Security payments.
- C) durable consumer goods.
- D) nondurable consumer goods.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

28) An example of an increase in gross private domestic investment spending that also increases Gross Domestic Product (GDP) is when

- A) a family sells its home because of a transfer.
- B) a farmer buys a used tractor.
- C) inventories of new cars accumulate on the lots of car dealers.
- D) government increases spending on infrastructure.

Answer: C

Diff: 3

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 29) A capital good is
- A) one produced by the government.
 - B) part of investment spending when purchased by either private businesses or by the federal government.
 - C) one that is purchased in order to make other goods and services.
 - D) not part of Gross Domestic Product (GDP) because it is an intermediate product.

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 30) If all other factors are held constant, an increase in imports
- A) causes an increase in exports of the same size.
 - B) causes Gross Domestic Product (GDP) to increase.
 - C) causes Gross Domestic Product (GDP) to decrease.
 - D) can cause Gross Domestic Product (GDP) to increase or decrease, depending on whether the imports are purchased by consumers or by business firms.

Answer: C

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 31) If Gross Domestic Product (GDP) equals \$1 trillion, gross private investment expenditures are \$200 billion, exports equal imports, and government spending is \$400 billion, then
- A) consumption expenditures are \$200 billion.
 - B) consumption expenditures are \$400 billion.
 - C) spending on consumer durables must be \$400 million.
 - D) we cannot determine what expenditures on consumption are without more information.

Answer: B

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 32) Because of improved productivity, wages increase 10 percent. As a result, gross domestic income increases. What happens to Gross Domestic Product?
- A) Gross Domestic Product also increases since consumption expenditures would increase.
 - B) Gross Domestic Product decreases as people pay more taxes on their higher incomes.
 - C) Gross Domestic Product would not change since consumption expenditures would rise but investment spending would fall.
 - D) Gross Domestic Product would decrease because businesses are spending more on wages.

Answer: A

Diff: 3

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 33) A decrease in U.S. income earned abroad will make all of the following smaller EXCEPT
- A) national income.
 - B) net domestic product.
 - C) personal income.
 - D) disposable personal income.

Answer: B

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 34) If Net Domestic Product (NDP) is \$50 less than Gross Domestic Product (GDP), we know that
- A) inventories increased over the year.
 - B) inventories decreased over the year.
 - C) net investment equals \$50.
 - D) depreciation equals \$50.

Answer: D

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 35) If C = consumption, G = government expenditures, and I = gross private investment expenditures, the mathematical representation of Gross Domestic Product (GDP) using the expenditure approach is

- A) $\text{GDP} = C + I + G + \text{Transfers}$.
- B) $\text{GDP} = C + I + G + \text{Imports}$.
- C) $\text{GDP} = C + \text{Imports}$.
- D) $\text{GDP} = C + I + G + \text{Net exports}$.

Answer: D

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 36) One method of calculating Gross Domestic Product (GDP) is to add together
- A) investment, consumption, gross profits, and net exports.
 - B) consumption, investment, government spending, and net exports.
 - C) wages, gross profits, net investment, and net exports.
 - D) consumption, wages, interest, rental income, and exports.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 37) Gross Domestic Product (GDP) exceeds net domestic product by an amount equal to
- A) indirect business taxes.
 - B) corporate profits plus personal taxes.
 - C) the capital consumption allowance (depreciation).
 - D) transfer payments minus personal taxes.

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

Consumption expenditures on goods and services	\$1,500
Total government spending on goods and services	590
Gross private domestic investment	355
Imports	50
Exports	70
Depreciation (capital consumption allowance)	200
Net U.S. income earned abroad	-75

- 38) According to the above table, Gross Domestic Product (GDP) is
- A) \$2,190.
 - B) \$2,840.
 - C) \$2,465.
 - D) \$2,750.

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 39) Which of the following is included when measuring Gross Domestic Product (GDP)?
- A) The value of services of durable goods purchased in previous years
 - B) The value of leisure time
 - C) The value of services provided by homemakers
 - D) The rental income received by a landlord

Answer: D

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 40) When using the income approach to estimate Gross Domestic Product (GDP), which of the following would NOT be included?
- A) The implicit rental value of owner-occupied housing
 - B) Proprietors' income
 - C) Personal consumption expenditures
 - D) Net interest received by households

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 41) The value of Gross Domestic Product (GDP), when estimated by the income approach, is the sum of
- A) consumption expenditures, investment spending, and profits.
 - B) consumption, wages, rents, interest, and profits.
 - C) income earned by all factors of production, indirect business taxes, corporate income taxes, and personal income taxes.
 - D) depreciation, business income adjustments less indirect business taxes, U.S. net income earned abroad and income earned domestically by factors of production.

Answer: D

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

Net interest	\$739
Net U.S. income earned abroad	36
Wages and salaries	8,735
Rental income	237
Other business income	1,202
adjustments less business transfers	
Change in business payments	262
Inventories	14
Personal consumption	1,250
Proprietorial income	1,128
Gross investment spending	1,479
Indirect business taxes	1,059
Corporate profits before taxes	1,194
Exports	249
Depreciation	1,833

- 42) According to the above table, Gross Domestic Product as calculated by the income approach is
- A) \$10,121 billion.
 - B) \$10,646 billion.
 - C) \$14,925 billion.
 - D) \$15,619 billion.

Answer: C

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 43) According to the above table, net domestic product is
- A) \$8,813 billion.
 - B) \$12,603 billion.
 - C) \$13,092 billion.
 - D) \$13,750 billion.

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

44) According to the above table, national income is

- A) \$13,271 billion. B) \$11,917 billion. C) \$10,770 billion. D) \$10,646 billion.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

Indirect Business Taxes	\$1,200
Gross Corporate Profits plus Proprietors' Income	\$2,140
Rental Income (including implicit rents)	\$175
Net Interest	\$650
Depreciation (capital consumption allowance)	\$1,775
Wage and Salary Income	\$8,200

45) According to the above table, Gross Domestic Product is

- A) \$14,140. B) \$13,965. C) \$13,315. D) \$12,115

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

46) According to the above table, net domestic product is

- A) \$14,390. B) \$13,190. C) \$12,540. D) \$12,365.

Answer: D

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

47) Calculating Gross Domestic Product (GDP) by the income approach would require including

- A) all transfer payments by the government.
B) all wages paid.
C) all restaurant sales.
D) the market value of all final goods and any profits.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

48) Which of the following is included in the calculation of Gross Domestic Product (GDP) using the income approach?

I. Wages and salaries.

II. Net exports.

A) I only

B) II only

C) Both I and II

D) Neither I nor II

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

49) Non-income expense items included in the Gross Domestic Product (GDP) calculation include

A) depreciation and indirect business taxes.

B) depreciation and corporate profits.

C) corporate profits tax and indirect business taxes.

D) indirect business taxes and corporate profits.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

50) Indirect business taxes refer to

A) depreciation expenses.

B) sales and local taxes paid by business.

C) payments for low-skilled labor.

D) dividend taxes paid by the corporation.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

51) The largest category of gross domestic income is

A) interest.

B) rent.

C) wages.

D) profits.

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB:

Question Status: Previous Edition

52) If households pay \$1,000 in interest payments and receive \$1,200 in interest, wages equal \$8,000, rental receipts on land are \$200, total business profits before taxes are \$2,200, depreciation is \$1,750, and indirect business taxes are \$1,000, then gross domestic income is

A) \$15,350.

B) \$13,350.

C) \$13,150.

D) \$11,400.

Answer: B

Diff: 3

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 53) The two main methods of measuring GDP are
- A) the income approach and the expenditure approach.
 - B) the income approach and the receipts approach.
 - C) the goods approach and the services approach.
 - D) the saving approach and the investment approach.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 54) The expenditure approach to measuring GDP
- A) adds the dollar value of final goods and services.
 - B) adds the income received by all factors of production.
 - C) excludes durable consumer goods since they last more than a year.
 - D) excludes profits since profits are a cost of production.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 55) The computation of GDP by adding up the dollar value at current market prices of all final goods and services is
- A) the expenditure approach.
 - B) the income approach.
 - C) transfer payments.
 - D) the value of all securities.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 56) The components of the expenditure approach to measuring GDP include all of the following EXCEPT
- A) net exports.
 - B) government purchases of goods and services.
 - C) expenditures for business investments.
 - D) the implicit payments for unpaid household work.

Answer: D

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

57) In calculating GDP, your tuition expenditures at college are classified as

- A) consumer expenditures on services.
- B) consumer expenditures on goods.
- C) consumer expenditures on durable goods.
- D) investment spending.

Answer: A

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

58) A consumer good that has a life span of more than three years is a(n)

- A) durable consumer good.
- B) nondurable consumer good.
- C) service.
- D) investment.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

59) A consumer good that is used up within three years is a(n)

- A) durable consumer good.
- B) nondurable consumer good.
- C) service.
- D) investment.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

60) Mental or physical labor or help purchased by consumers is a(n)

- A) durable consumer good.
- B) nondurable consumer good.
- C) service.
- D) investment.

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

61) Durable consumer goods are goods that last more than

- A) one year.
- B) three years.
- C) five years.
- D) seven years.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

62) Which of the following would NOT be included in consumption expenditures when calculating GDP?

- A) an individual's purchase of a new car
- B) an individual's purchase of medical services
- C) an individual's purchase of newly issued shares of IBM stock
- D) an individual's purchase of legal services

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

63) A nondurable good

- A) has a life span of more than 3 years.
- B) is used up within 3 years.
- C) applies only to services.
- D) is an intangible commodity.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB:

Question Status: Previous Edition

64) A durable good

- A) has a life span of more than 3 years.
- B) is used up within 3 years.
- C) applies only to services.
- D) is an intangible commodity.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB:

Question Status: Previous Edition

65) An example of a durable good is

- A) items purchased at a grocery store.
- B) a refrigerator.
- C) the purchase of labor for a business.
- D) the services of a cleaning person.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

66) An example of a nondurable good is

- A) items purchased at a grocery store.
- B) a refrigerator.
- C) the purchase of labor for a business.
- D) the services of a cleaning person.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 67) Which of the following is included in government expenditures when measuring GDP?
- A) Social Security payments
 - B) Unemployment expenditures
 - C) Goods imported into the United States
 - D) The President's income

Answer: D

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 68) When economists refer to investment expenditures they mean the
- A) purchase of a consumer nondurable goods.
 - B) purchase of stocks or bonds.
 - C) use of today's resources to expand tomorrow's production or consumption.
 - D) production of intermediate goods.

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 69) Suppose a firm purchases new equipment to replace worn-out equipment at its factory. This purchase of new equipment is considered
- A) durable consumption goods.
 - B) inventory investment.
 - C) gross private domestic investment.
 - D) none of the above.

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 70) Any use of today's resources to expand tomorrow's production or consumption is a(n)
- A) durable consumer good.
 - B) nondurable consumer good.
 - C) service.
 - D) investment.

Answer: D

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 71) An increase in fixed investment spending that increases GDP occurs when
- A) a family purchases a new car.
 - B) a business buys a new computer.
 - C) inventories of new cars are drawn down on the lots of car dealers.
 - D) the government builds a new office building.

Answer: B

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 72) A capital good is
- A) a good that lasts more than three years.
 - B) a good that is used to make other goods and services.
 - C) an intermediate product and therefore not part of GDP.
 - D) a good that should increase in value over time.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 73) Capital purchases by businesses of newly produced durables is known as
- A) the expenditure approach.
 - B) the income approach.
 - C) fixed investment.
 - D) inventory investment.

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 74) Changes in the stocks of finished goods and goods in process as well as changes in the raw materials that businesses keep on hand is known as
- A) the expenditure approach.
 - B) the income approach.
 - C) fixed investment.
 - D) inventory investment.

Answer: D

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 75) Fixed investment is
- A) the change in stocks of finished goods.
 - B) the change in the stocks of goods in process.
 - C) capital purchase by businesses of newly produced durables.
 - D) purchases by consumers of newly produced consumer durables.

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 76) An increase in net exports
- A) causes GDP to increase.
 - B) causes GDP to decrease.
 - C) causes an increase in imports of the same size.
 - D) can cause GDP to either increase or decrease, depending on whether the exports are durable or nondurable.

Answer: A

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 77) Net exports equal the
- A) total value of all exports.
 - B) total value of all government produced exports.
 - C) value of exports minus the value of imports.
 - D) value of imports minus the value of exports.

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB:

Question Status: Previous Edition

- 78) Using the expenditure approach, GDP is calculated as
- A) wages + interest + rent + profits
 - B) consumption expenditures + wages
 - C) consumption expenditures + wages + interest
 - D) consumption expenditures + investment expenditures + government expenditures + net exports

Answer: D

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 79) The components of GDP using the expenditure method are
- A) consumption expenditures, investment expenditures, and government expenditures.
 - B) consumption expenditures, investment expenditures, government expenditures, and net exports.
 - C) wages and interest.
 - D) wages, interest, rents ,and profits.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

80) $C + I + G + X$ equals

- A) GDP. B) DPI. C) NDP. D) PI.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

81) $C + \text{net } I + G + X$ equals

- A) GDP. B) DPI. C) NDP. D) PI.

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

82) If imports are \$100 million less than exports, government spending is \$500 million, consumer expenditures are \$1 billion, and investment spending is \$500 million, then GDP is

- A) \$1 billion. B) \$1.9 billion. C) \$2 billion. D) \$2.1 billion.

Answer: D

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

83) If consumption expenditures are \$500 million, spending on fixed investment is \$100 million, the increase in inventories equals \$5 million, imports are \$50 million, exports are \$55 million, government spending on goods and services is \$200 million, then GDP is

- A) \$790 million. B) \$800 million. C) \$810 million. D) \$830 million.

Answer: C

Diff: 3

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

84) Gross domestic product is

- A) NDP plus net exports. B) NDP plus taxes.
C) NDP plus depreciation. D) NDP less changes in inventories.

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB:

Question Status: Previous Edition

- 85) Net investment refers to
- A) the change in the capital stock after subtracting out depreciation.
 - B) the change in inventories over a 1-year period.
 - C) the change in investment spending and the change in government expenditures on infrastructure.
 - D) exports minus imports.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB:

Question Status: Previous Edition

- 86) If consumption expenditures are \$100 million, net investment is \$50 million, imports are \$20 million, exports are \$10 million, government spending on goods and services is \$40 million, Social Security spending is \$15 million, and sales of existing homes equals \$40 million, then what is the measure of GDP?

- A) GDP = \$225 million
- B) GDP = \$180 million
- C) GDP = \$295 million
- D) GDP = \$195 million

Answer: B

Diff: 3

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 87) The components of GDP using the income method (excluding indirect business taxes and depreciation) are
- A) consumption expenditures, investment expenditures, and government expenditures.
 - B) consumption expenditures, investment expenditures, government expenditures, and net exports.
 - C) wages and interest.
 - D) wages, interest, rents, and profits.

Answer: D

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB:

Question Status: Revised

- 88) All of the following are included in the calculation of gross domestic income (GDI) EXCEPT
- A) consumer expenditures.
 - B) wages.
 - C) profits.
 - D) indirect business taxes.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 89) Excluding indirect business taxes and depreciation, Gross Domestic Income (GDI)
- A) is the sum of all income paid to the factors of production.
 - B) never equals GDP.
 - C) would equal GDP if there was no depreciation.
 - D) cannot be computed.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Revised

- 90) Which of the following statements is true?
- A) $GDP = NDP$
 - B) $GDP = NI$
 - C) $GDP = GDI$
 - D) $GDP = PI$

Answer: C

Diff: 3

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 91) The income approach to measuring GDP
- A) adds the dollar value of final goods and services.
 - B) adds the income received by all factors of production.
 - C) excludes durable consumer goods since they last more than a year.
 - D) excludes profits since profits are a cost of production.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 92) The computation of GDP by adding up all components of national income including wages, interest, rent and profits is
- A) the expenditure approach.
 - B) the income approach.
 - C) transfer payments.
 - D) the value of all securities.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 93) The largest component of gross domestic income is
- A) interest payments.
 - B) wages.
 - C) profits.
 - D) taxes.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

94) Indirect business taxes include all of the following EXCEPT

- A) sales taxes.
- B) taxes on business property.
- C) taxes on corporate profits.
- D) taxes on business equipment.

Answer: C

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

95) If households receive \$100 in interest payments and make interest payments of \$110, wages equal \$500, rental receipts are \$200, royalties are \$100, profits are \$200, depreciation is \$50, and indirect business taxes are \$50, then gross domestic income is

- A) \$1090.
- B) \$1110.
- C) \$1180.
- D) \$1280.

Answer: A

Diff: 3

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

96) Because of terrible winter storms, gross domestic product for the first quarter of the calendar year falls by 10 percent. As a result, gross domestic income

- A) falls by less than 10 percent.
- B) also falls by 10 percent because they always have to be equal.
- C) falls by more than 10 percent because incomes always vary more than GDP.
- D) would not change since the time span is less than a year.

Answer: B

Diff: 3

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

97) Which of the following is from the calculation of investment for GDP purposes?

- A) the purchase of new capital goods
- B) changes in business inventories
- C) new home construction
- D) all of the above

Answer: D

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

98) Net exports is equal to

- A) total exports minus total imports.
- B) total imports minus total exports.
- C) total exports adjusted for price changes.
- D) total exports minus transfer payments.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 99) Indirect business taxes include
- A) property taxes and corporate income taxes.
 - B) sales taxes and income taxes.
 - C) business property taxes and sales taxes.
 - D) income taxes and Social Security taxes.

Answer: C

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 100) If no other national income variables change when _____ increase, then GDP will decrease.
- A) inventories
 - B) imports
 - C) investments
 - D) levels of pollution

Answer: B

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 101) GDP can be calculated using
- A) the expenditure approach and the production approach.
 - B) the expenditure approach and the income approach.
 - C) the expenditure approach and the factor of production approach.
 - D) the expenditure approach and the resource approach.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 102) Why are exports added to (rather than subtracted from) the other expenditure components to arrive at GDP using the expenditure method?
- A) because exports account for those goods that were produced in the economy but that were not devoted to domestic consumption, used for domestic investment, or provided as government goods
 - B) because exports have a higher profit margin for manufacturers than do similar products sold in domestic markets
 - C) because exported goods are not valued properly, due to problems with the purchasing power parity index
 - D) because it is only through exporting that we can generate jobs in our own economy

Answer: A

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

103) Which one of the following is true?

- A) Net investment is negative when gross investment is greater than depreciation.
- B) Our productive capacity declines when net investment is less than zero.
- C) Negative net investment occurs when imports are less than exports.
- D) Negative net investment occurs when exports are less than imports.

Answer: B

Diff: 3

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

104) Inventory investment can be defined as

- A) changes in the stocks of finished goods and raw materials.
- B) the system of accounts that is used to count certain goods.
- C) goods that must be excluded from the GDP to avoid double counting.
- D) the value of monetary transactions by businesses.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

105) Net exports for the United States

- A) are always positive numbers.
- B) may be negative.
- C) are a result of decreasing investment in the manufacturing industries.
- D) are a result of decreasing domestic consumption.

Answer: B

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

106) The expenditure approach to deriving gross domestic product sums the following categories of spending:

- A) consumption, investment, government spending, and net exports.
- B) consumption, income, government spending, and net exports.
- C) consumption, savings, investment, and government spending.
- D) consumption, government spending, transfer payments, and net exports.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

107) Using the expenditure approach to deriving gross domestic product, if U.S. imports rise and exports remain the same

- A) GDP rises.
- B) GDP remains the same.
- C) GDP falls.
- D) GDP indicates a recession.

Answer: C

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

108) Gross domestic income can be defined as

- A) the sum of all incomes earned by all factors of production in a year.
- B) the sum of all incomes earned by individuals.
- C) the sum of all profits earned by businesses in a year.
- D) the sum of all profits earned minus depreciation.

Answer: A

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

109) The two main approaches to measuring GDP are the

- A) concept approach and the reality approach.
- B) flow approach and the stock approach.
- C) government approach and the consumer approach.
- D) income approach and the expenditure approach.

Answer: D

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

110) What is the proper formula for computing the GDP using the expenditure approach?

- A) $S + I + G + X$
- B) $C + I + G + X$
- C) $C + O + G + S$
- D) $0.5(w + r) + k$

Answer: B

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

111) Given the following data, calculate the GDP.

- | | | |
|-------------------|-------------------------------|------------------------------|
| wages = \$500 | government spending = \$2,500 | private investment = \$2,100 |
| rent = \$100 | consumer spending = \$7,800 | net exports = \$-400 |
| A) GDP = \$11,400 | B) GDP = \$12,000 | C) GDP = \$12,400 |
| | | D) GDP = \$13,000 |

Answer: B

Diff: 3

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

112) The appropriate formula for computing Gross Domestic Product using the income approach (excluding depreciation and indirect income taxes) is

- A) consumption + investment + government spending + net exports
- B) wages + rent + interest + profits
- C) wages + rent + interest + profits + indirect business taxes
- D) wages + rent + interest + profits + indirect business taxes + depreciation

Answer: D

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Revised

113) To calculate GDP once national income has been computed, we must

- A) add indirect business taxes and transfers and subtract profits.
- B) add depreciation and subtract indirect business taxes.
- C) add depreciation and indirect business taxes and transfer payments and subtract other business income adjustments and net U.S. income earned abroad.
- D) add indirect business taxes and transfers and subtract depreciation, other business income adjustments, and net U.S. income earned abroad.

Answer: C

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

114) The difference between Gross Domestic Income (GDI) and Gross Domestic Product (GDP) is that

- A) GDI is GDP less indirect business taxes and depreciation.
- B) GDP is GDI less indirect business taxes and depreciation.
- C) GDI is equal to GDP.
- D) GDP is always smaller than GDI.

Answer: C

Diff: 3

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

115) Which sector of our economy accounts for the largest percentage to total spending?

- A) households
- B) businesses
- C) government
- D) exports

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 116) In calculating GDP using the expenditure approach, the largest component is
- A) consumption spending.
 - B) government spending.
 - C) investment spending.
 - D) spending on durable goods.

Answer: A

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 117) What constitutes investment when measuring gross private domestic investment?

Answer: Investment is the use of today's resources to expand tomorrow's production or consumption. It includes the purchase of capital goods, which can increase future production and consumption, and inventory investments which can increase future consumption. It does not include financial transactions such as buying stocks and bonds.

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 118) "If we sum up all factor payments, we will get gross domestic income." Do you agree or disagree with this statement? Why?

Answer: Disagree. The sum of all factor payments leaves out non-income expense items that must be included. These items are indirect business taxes and depreciation.

Diff: 2

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 119) Explain the two main methods used to measure GDP.

Answer: The two methods used to measure GDP are the expenditure approach and the income approach. The expenditure approach measures GDP by adding up the flows of expenditures—consumption, government, gross private domestic investment, and net exports. The income approach measures GDP by adding up the flows of income—wages, interest, rent, and profits.

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

- 120) How do GDP and NDP differ? What does it mean if net investment is negative?

Answer: Net domestic product equals GDP minus depreciation, which is also known as the capital consumption allowance. In the course of a year, machines and plants deteriorate. Depreciation is the estimate of the value of this wear and tear on capital goods. Net investment is gross investment minus depreciation, and measures the change in the capital stock. If depreciation is greater than the addition of new capital, the capital stock gets smaller. When this happens, future production and/or consumption possibilities will be diminished.

Diff: 3

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

121) How is interest measured when used in deriving GDP?

Answer: Interest is expressed in net terms. It is the interest received by households, less the interest they pay. It also includes the net interest received from foreigners.

Diff: 1

Topic: 8.3 Two Main Methods of Measuring GDP

AACSB: Analytic skills

Question Status: Previous Edition

8.4 Other Components of National Income Accounting

1) All of the following statements are correct EXCEPT

- A) $\text{NDP} = \text{Gross Domestic Product (GDP)} - \text{depreciation (capital consumption allowance)}$.
- B) $\text{NI} = \text{NDP} + \text{indirect business taxes}$.
- C) $\text{Net exports} = \text{total exports} - \text{total imports}$.
- D) $\text{Gross Domestic Product (GDP)} = \text{NDP} + \text{capital consumption allowance (depreciation)}$.

Answer: B

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

2) If consumption expenditures are \$500, spending on fixed investment is \$100, imports are \$40, exports are \$75, the capital consumption allowance is \$25, government spending is \$50, and inventories have fallen by \$5, then Gross Domestic Product (GDP) is

- A) \$25 greater than NDP.
- B) \$20 greater than NDP.
- C) \$50 greater than NDP.
- D) the same as NDP.

Answer: A

Diff: 3

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

3) National income includes all of the following EXCEPT

- A) proprietors' income.
- B) net interest.
- C) corporate profits.
- D) depreciation.

Answer: D

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

4) The amount of income households receive *after* personal income taxes have been paid is known as

- A) national income.
- B) personal income.
- C) disposable personal income.
- D) gross domestic income.

Answer: C

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 5) National income is equal to
- A) Gross Domestic Product (GDP) plus depreciation and indirect business taxes.
 - B) the sum of all factor payments to resource owners.
 - C) Gross Domestic Product (GDP) minus indirect business taxes.
 - D) Gross Domestic Product (GDP) minus NDP.

Answer: B

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 6) The annual cost of producing the entire output of final goods and services in an economy is
- A) equal to the quantity of total output produced.
 - B) greater than the total income of households in the economy.
 - C) equal to total income.
 - D) equal to the total income of households in the economy only if profits are zero.

Answer: C

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 7) The total factor payments to all resource owners is called
- A) net domestic product.
 - B) personal income.
 - C) national income.
 - D) gross domestic income.

Answer: C

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 8) Suppose net domestic product is \$4.8 billion, net income earned abroad is \$0.7 billion, other business income adjustments net of indirect business taxes and transfers are \$0.4 billion, and personal income taxes are \$0.8 billion. Then, national income equals
- A) \$2.9 billion.
 - B) \$3.6 billion.
 - C) \$5.9 billion.
 - D) \$6.7 billion.

Answer: C

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Gross Domestic Product (GDP) = \$13.0 trillion, consumption = \$9.5 trillion, depreciation = \$1.8 trillion, other business income adjustments less indirect business taxes = \$0.2 trillion, and net U.S. income earned abroad = \$0.1 trillion. Use this information to calculate national income (NI).
- A) NI = \$11.0 billion
 - B) NI = \$11.3 billion
 - C) NI = \$11.4 billion
 - D) NI = \$11.5 billion

Answer: D

Diff: 3

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

10) National income is income _____ the factors of production.

- A) paid by
- B) earned by
- C) invested in
- D) households owe to

Answer: B

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

11) Personal income is equal to

- A) NDP minus national income.
- B) disposable personal income plus personal income taxes.
- C) disposable personal income plus personal and corporate income taxes.
- D) national income minus (corporate income taxes and Social Security).

Answer: B

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

12) If you take national income and add transfer payments, then subtract income earned but not received, the result will be

- A) net national product.
- B) disposable personal income.
- C) personal income.
- D) wages.

Answer: C

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

13) The difference between personal income and disposable personal income is that

- A) disposable personal income includes only the funds available to spend on non-necessities.
- B) personal income taxes are not included in disposable personal income.
- C) personal income includes personal income taxes and indirect business taxes, which are not included in disposable personal income.
- D) personal income does not include transfer payments, such as Social Security payments or welfare payments and disposable personal income includes them.

Answer: B

Diff: 3

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

14) The amount of income received by households prior to the payment of personal income taxes is called

- A) disposable wages.
- B) personal income.
- C) national income.
- D) net domestic product.

Answer: B

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

15) If disposable personal income (DPI) = \$800 and personal income taxes = \$80, then what is personal income (PI)?

- A) \$720
- B) \$800
- C) \$880
- D) can't tell from the information provided

Answer: C

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

16) Which of the following will be the smallest in value?

- A) National income
- B) Net domestic product
- C) Personal income
- D) Disposable personal income

Answer: D

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

17) Disposable personal income is found by taking

- A) personal income taxes minus personal income.
- B) personal income minus personal income taxes.
- C) personal income taxes plus personal income.
- D) personal income times personal income taxes.

Answer: B

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB:

Question Status: Previous Edition

18) Disposable personal income is equal to

- A) national income minus personal income taxes.
- B) personal income plus transfer payments.
- C) Gross Domestic Product (GDP) minus depreciation.
- D) personal income minus personal income tax payments.

Answer: D

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB:

Question Status: Previous Edition

19) Income earned by the factors of production is called

- A) gross domestic income.
- B) disposable personal income.
- C) personal income.
- D) national income.

Answer: D

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

20) Which of the following accurately describes represents income earned by all factors of production?

- A) National Income
- B) Personal Income
- C) Disposable Personal Income
- D) Wages and salaries

Answer: A

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

21) Income received by the factors of production is called

- A) gross domestic income.
- B) disposable personal income.
- C) personal income.
- D) national income.

Answer: C

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

22) The income that individuals have after personal income taxes have been paid is called

- A) gross domestic income.
- B) disposable personal income.
- C) personal income.
- D) national income.

Answer: B

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB:

Question Status: Previous Edition

23) One key difference between national income and net domestic product is

- A) net domestic product does not include income earned by the factors of production while national income does.
- B) net domestic product represents income that is available to individuals while national income does not.
- C) net domestic product includes indirect business taxes and transfers while national income does not.
- D) net domestic product only includes the net additions to the economy's stock of capital while national income does not.

Answer: C

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

24) Individuals receive income and pay taxes over the course of a year. The difference between the income they receive and the taxes they pay is referred to as

- A) net national income.
- B) net domestic product.
- C) per capita real GDP.
- D) disposable personal income.

Answer: D

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

25) The difference between personal income and disposable personal income is

- A) disposable personal income is what is left after personal income taxes have been paid while personal income includes personal income taxes.
- B) personal income is what is left after personal income taxes have been paid while disposable income includes personal income taxes.
- C) personal income includes transfer payments while disposable personal income does not.
- D) personal income includes indirect business taxes while disposable income does not.

Answer: A

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

26) Suppose gross domestic product is \$5 billion, government transfer payments are \$1 billion, indirect business taxes and transfers are \$0.5 billion, and depreciation is \$0.5 billion. Then national income equals

- A) \$5 billion.
- B) \$4 billion.
- C) \$3 billion.
- D) \$2.7 billion.

Answer: B

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

27) Which of the following will have the smallest dollar value?

- A) Personal income.
- B) Disposable personal income.
- C) National income.
- D) Net domestic product.

Answer: B

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 28) One difference between net domestic product and national income is that
- A) net domestic product includes depreciation.
 - B) national income includes government and business transfer payments.
 - C) net domestic product includes indirect business taxes and transfers.
 - D) net domestic product doesn't include Social Security taxes or corporate retained earnings.

Answer: C

Diff: 3

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 29) An increase in Social Security contributions will make
- A) net domestic product smaller.
 - B) national income larger.
 - C) national income smaller.
 - D) personal income smaller.

Answer: D

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 30) Personal income taxes are the difference between
- A) national income and personal income.
 - B) personal income and disposable personal income.
 - C) national income and disposable personal income.
 - D) net domestic product and personal income.

Answer: B

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 31) National income is \$500, corporate taxes are \$20, Social Security contributions are \$60, retained earnings are \$10, personal taxes are \$100, and transfer payments are \$80. Disposable income is
- A) \$510.
 - B) \$450.
 - C) \$410.
 - D) \$390.

Answer: D

Diff: 3

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 32) An increase in corporate income taxes would reduce
- A) net domestic product.
 - B) gross domestic product.
 - C) national income.
 - D) personal income.

Answer: D

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 33) Suppose Social Security contributions rise by \$1 billion while Social Security benefits also rise by \$1 billion. Further, personal income taxes fall by \$500 million. As a result,
- A) both personal and disposable personal income should increase.
 - B) national income, personal income, and disposable income should increase.
 - C) disposable income should increase while personal income and national income are unchanged.
 - D) personal income, disposable personal income, and national income remain unchanged.

Answer: C

Diff: 3

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 34) What is the difference between personal income and disposable personal income?
- A) the amount of personal income taxes
 - B) indirect personal taxes and transfers
 - C) net U.S. income earned abroad
 - D) depreciation

Answer: A

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

- 35) Transfer payments are included in
- A) gross domestic product.
 - B) net domestic product.
 - C) national income.
 - D) personal income.

Answer: D

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

Government spending	50	Profit	28
Social Security contributions	20	Indirect business taxes	10
Corporate taxes	5	Imports	5
Personal income taxes	8	Exports	3
Rent	54	Interest	5
Wages	231	Depreciation	10
Consumption expenditures	250	Government transfer payments	8
Gross Private Domestic Investment	40		

- 36) Using the above table, the Gross Domestic Product (GDP) for the country is
- A) 662.
 - B) 84.
 - C) 746.
 - D) 338.

Answer: D

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Revised

- 37) Using the above table, the Net Domestic Product (NDP) for the country is
A) 662. B) 84. C) 328. D) 338.

Answer: C

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Revised

- 38) Using the above table, the National Income (NI) for the country is
A) 338. B) 228. C) 318. D) 662.

Answer: C

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Revised

- 39) Using the above table, the Personal Income (PI) for the country is
A) 84. B) 228. C) 155. D) 301.

Answer: D

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Revised

- 40) Using the above table, the Disposable Personal Income (DPI) for the country is
A) 78. B) 220. C) 147. D) 293.

Answer: D

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Revised

- 41) Personal income is
A) the sum of all incomes received by households on welfare.
B) the income households have after paying federal taxes.
C) the sum of all incomes received by households.
D) the sum of all incomes earned by sole proprietorships and partnerships.

Answer: C

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

42) Which of the following would NOT be a part of personal income?

- A) indirect business taxes
- B) payments received from Social Security
- C) retirement checks
- D) corporate dividend payments to shareholders

Answer: A

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

43) The amount of income that households actually receive before they pay personal income taxes defines

- A) national income (NI).
- B) personal income (PI).
- C) disposable personal income (DPI).
- D) net domestic product (NDP).

Answer: B

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

	Billions of Dollars
Consumption	6,500
Gross private domestic investment	1,900
Government spending less transfer payments	1,200
Imports	600
Exports	500
Depreciation	1,500
Indirect business taxes and transfers	750

44) Using the above table, the GDP is (in billions of dollars)

- A) 10,200.
- B) 8,200.
- C) 8,900.
- D) 9,500.

Answer: D

Diff: 3

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

45) Using the above table, the net domestic product is (in billions of dollars)

- A) 8,000.
- B) 9,700.
- C) 8,300.
- D) 6,500.

Answer: A

Diff: 3

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

46) Using the above table, the national income is (in billions of dollars)

- A) 8,950. B) 7,250. C) 6,850. D) 8,050.

Answer: B

Diff: 3

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

47) GDP minus depreciation equals

- A) national income. B) aggregate spending.
C) personal income. D) net domestic product.

Answer: D

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

48) Which one of the following accounting identities is true?

- A) Disposable personal income plus indirect business taxes equals personal income.
B) Disposable personal income plus non-income expense items equals personal income.
C) Disposable personal income plus personal income taxes equals personal income.
D) National income plus profit equals personal income.

Answer: C

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

49) Social Security payments received by your grandmother

- A) are excluded from GDP, but are included in personal income.
B) are included in both GDP and personal income.
C) are included in GDP, but are excluded from personal income.
D) are excluded in both GDP and personal income.

Answer: A

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

50) National income is

- A) the total of factor payments to owners of resources.
B) the dollar value of all final goods and services produced in a country in a year.
C) the amount of monetary payments households actually receive before paying personal income taxes.
D) the amount of monetary payments households actually receive after paying personal income taxes.

Answer: A

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

51) Disposable personal income is

- A) the total of factor payments to owners of resources.
- B) the dollar value of all final goods and services produced in a country in a year.
- C) the amount of monetary payments households actually receive before paying personal income taxes.
- D) the amount of monetary payments households actually receive after paying personal income taxes.

Answer: D

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

Consumption expenditures on goods and services	\$1,500
Total government spending on goods and services	590
Gross private domestic investment	355
Imports	50
Exports	70
Depreciation (capital consumption allowance)	200
Net U.S. income earned abroad	-75

52) According to the above table, net domestic product (NDP) is

- A) \$1,995.
- B) \$2,265.
- C) \$2,550.
- D) \$2,850.

Answer: B

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

53) According to the above table, national income is

- A) \$2,190.
- B) \$2,550.
- C) \$2,465.
- D) \$2,750.

Answer: A

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

54) Which of the following is a component of net domestic product (NDP), but NOT of national income?

- A) Capital consumption allowance
- B) Indirect business taxes
- C) Corporate taxes
- D) Personal taxes

Answer: B

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

55) To compute national income, which of the following items are added to net domestic product (NDP)?

- I. business income adjustments net of indirect business taxes and transfers
- II. capital consumption allowance
- III. U.S. net income earned abroad

A) I only

B) II only

C) both I and III

D) both II and III

Answer: C

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

(amounts in billions of dollars)

Exports	233
Dividends	81
Consumption expenditures	9163
Gross private domestic investment	2163
Business income adjustments net of indirect business taxes and transfers	106
U.S. net income earned abroad	51
Undistributed corporate profits	148
Personal income taxes	1386
Imports	720
Federal government expenditures	2520
Changes in business inventories	16
Corporate taxes	103
Depreciation	1806
State and local government expenditures	258
Social Security govt. contribution	250

56) According to the above table, Gross Domestic Product as calculated by the expenditure approach is

A) \$14,337 billion.

B) \$13,617 billion.

C) \$13,384 billion.

D) \$13,278 billion.

Answer: B

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

57) According to the above table, net domestic product is

A) \$12,531 billion.

B) \$11,998 billion.

C) \$11,892 billion.

D) \$11,811 billion.

Answer: D

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

58) According to the above table, national income is

- A) \$12,637 billion. B) \$11,968 billion. C) \$11,943 billion. D) \$11,866 billion.

Answer: B

Diff: 1

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

59) Explain how disposable personal income is derived from Gross Domestic Product.

Answer: Gross domestic product is the same thing as gross domestic income. National income is found by taking NDP and adding net U.S. income earned abroad and other business income adjustments less indirect business taxes and transfers. Personal income is found by subtracting income earned but not received (corporate taxes, Social Security contributions, and corporate retained earnings) and adding in government transfer payments. Subtracting all personal income taxes and nontax payments generates disposable personal income.

Diff: 2

Topic: 8.4 Other Components of National Income Accounting

AACSB: Analytic skills

Question Status: Previous Edition

8.5 Distinguishing Between Nominal and Real Values

1) When economists discuss the nominal value of an economic variable, the variable is

- A) expressed in current dollars. B) expressed as an index figure.
C) adjusted for a changing price level. D) expressed as a percentage.

Answer: A

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

2) Suppose that in 2011, nominal Gross Domestic Product (GDP) for the economy of Chiconia was \$10 trillion and the Gross Domestic Product (GDP) price index was 200.0. What is Chiconia's real Gross Domestic Product (GDP) in 2011?

- A) \$5 trillion B) \$10 trillion C) \$20 trillion D) \$200 trillion

Answer: A

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Revised

- 3) Which of the following statements does NOT describe the real value of an economic variable?
- A) It is adjusted for changes in the price level.
 - B) It is expressed in constant dollars.
 - C) It is a measure of the purchasing power of the variable.
 - D) It is the variable's nominal value adjusted for unemployment.

Answer: D

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 4) If nominal Gross Domestic Product (GDP) in 2005 was \$500 billion with a price index of 100, what would be the real Gross Domestic Product (GDP) in 2010 if the 2010 nominal Gross Domestic Product (GDP) was \$900 billion and the 2010 price index was 140?
- A) \$900 billion
 - B) \$540 billion
 - C) \$800 billion
 - D) \$643 billion

Answer: D

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 5) If nominal Gross Domestic Product (GDP) in 2001 was \$1 trillion, nominal Gross Domestic Product (GDP) in 2010 was \$2 trillion, and the 2001 and 2010 price indexes were 100 and 250 respectively,
- A) real Gross Domestic Product (GDP) increased between 2001 and 2010.
 - B) real Gross Domestic Product (GDP) decreased between 2001 and 2010.
 - C) real Gross Domestic Product (GDP) remained constant.
 - D) we cannot draw any conclusions about changes in real Gross Domestic Product (GDP).

Answer: B

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Revised

- 6) If nominal Gross Domestic Product (GDP) in 2011 was \$3,000 billion, and the price level index was 330 (2005 = 100), then real Gross Domestic Product (GDP) in terms of the price level in 2011 was about
- A) \$105 billion.
 - B) \$4,220 billion.
 - C) \$909 billion.
 - D) \$537 billion.

Answer: C

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 7) The difference between nominal and real values is that real values take into account
- A) depreciation.
 - B) changes in the composition of output.
 - C) changes in prices between years.
 - D) the presence of durable goods.

Answer: C

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 8) The nominal value of Gross Domestic Product (GDP) is expressed in
- A) inflation-adjusted prices.
 - B) constant dollars.
 - C) base-year dollars.
 - D) none of the above.

Answer: D

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 9) Adjusting nominal Gross Domestic Product (GDP) for price changes from a base year yields
- A) current Gross Domestic Product (GDP).
 - B) real Gross Domestic Product (GDP).
 - C) constant disposable income.
 - D) Gross Domestic Product (GDP) net of relative price changes.

Answer: B

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 10) Constant dollar Gross Domestic Product (GDP)
- A) is the same as nominal Gross Domestic Product (GDP).
 - B) is nominal Gross Domestic Product (GDP) divided by the price index.
 - C) is equal to real GDP multiplied by the overall price level.
 - D) all of the above.

Answer: B

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 11) Suppose 2009 is the base year. From 2009 to 2010, the price index increases from 100 to 102.5. If nominal Gross Domestic Product (GDP) is \$2,800 in 2010, then the real Gross Domestic Product (GDP) in 2010 is
- A) \$2,700.
 - B) \$2,800.
 - C) \$2,732.
 - D) \$2,870.

Answer: C

Diff: 2

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Revised

- 12) If Gross Domestic Product (GDP) and other national income accounts are expressed in nominal values, then they are
- A) measured in real values.
 - B) measured in market prices at which goods actually sold.
 - C) measured in constant prices instead of actual market prices.
 - D) readily comparable to Gross Domestic Product (GDP) figures for other years.

Answer: B

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 13) The price-corrected value for Gross Domestic Product is
- A) real Gross Domestic Product (GDP).
 - B) net Gross Domestic Product (GDP).
 - C) net national product.
 - D) per capita income.

Answer: A

Diff: 2

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 14) Nominal income per person in the United States in 1960 was about \$2,800 per year, while in 1990 nominal income per person was about \$21,000. This indicates that
- A) nominal income was about 7.5 times greater in 1990, but we can't tell if this increase is due to inflation, economic growth, or a combination of the two.
 - B) people enjoyed a standard of living about 7.5 times higher in 1990 than in 1960.
 - C) a dollar in 1960 was worth less than a dollar in 1990.
 - D) the average person would consider him/herself about 7.5 times happier in 1990 than in 1960.

Answer: A

Diff: 2

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 15) If deflation is occurring and nominal Gross Domestic Product (GDP) is increasing over time, then real Gross Domestic Product (GDP) is
- A) decreasing.
 - B) increasing at the same rate as nominal Gross Domestic Product (GDP).
 - C) increasing more slowly than nominal Gross Domestic Product (GDP).
 - D) increasing faster than nominal Gross Domestic Product (GDP).

Answer: D

Diff: 3

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 16) To determine how well an economy is doing, it is better to use
- A) nominal Gross Domestic Product (GDP) figures.
 - B) real Gross Domestic Product (GDP) figures.
 - C) Gross Domestic Product (GDP) figures measured by the expenditure approach.
 - D) Gross Domestic Product (GDP) figures measured by the income approach.

Answer: B

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 17) Nominal values are
- A) measured in terms of actual market prices at which the goods are sold.
 - B) based on inflation-adjustments.
 - C) based on Gross Domestic Product (GDP) per capita.
 - D) measured in terms of total purchasing power.

Answer: A

Diff: 2

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 18) Per capita real Gross Domestic Product (GDP) is
- A) real Gross Domestic Product (GDP) divided by the population.
 - B) real Gross Domestic Product (GDP) divided by a price index.
 - C) real Gross Domestic Product (GDP) minus depreciation.
 - D) population divided by real Gross Domestic Product (GDP).

Answer: A

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB:

Question Status: Previous Edition

- 19) Per capita real Gross Domestic Product (GDP)
- A) does not tell us the welfare level in the country.
 - B) tells us the overall welfare conditions of all the country's citizens.
 - C) gives only the welfare of the country's corporations.
 - D) gives only the welfare of the richest areas of the country.

Answer: A

Diff: 2

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 20) Suppose Country A and Country B each have the same real Gross Domestic Product (GDP), equal to \$440 billion. Country A has 100 million people and Country B has 175 million people. In this situation, per capita real Gross Domestic Product (GDP) is

A) the same in both countries. B) higher in Country A.
C) higher in Country B. D) an irrelevant factor.

Answer: B

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 21) Suppose that the following occurred in two countries during the past decade. Country A, real Gross Domestic Product (GDP) rose 40 percent and population rose 46 percent; Country B, real Gross Domestic Product (GDP) increased 80 percent and population increased 75 percent. Based on this information, which is true?

A) Both countries have experienced growth in per capita real Gross Domestic Product (GDP).
B) Neither country has experienced growth in per capita real Gross Domestic Product (GDP).
C) Chances for an improved standard of living are greater in Country A.
D) Only Country B has experienced growth in its per capita real Gross Domestic Product (GDP).

Answer: D

Diff: 2

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Revised

Year	Nominal GDP	Price Deflator
2007	500	95.4
2008	600	100.0
2009	700	102.5
2010	800	103.1

- 22) Refer to the above table. Real GDP in 2007 is

A) 190.8. B) 477. C) 500. D) 524.1.

Answer: D

Diff: 2

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Revised

- 23) Refer to the above table. Real GDP in 2009 is

A) 146.4. B) 682.9. C) 700. D) 717.5.

Answer: B

Diff: 2

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Revised

24) Refer to the above table. Real GDP in 2010 is

- A) 103.1. B) 128.9. C) 775.9. D) 824.8.

Answer: C

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Revised

25) Refer to the above table. All real GDP numbers are expressed in terms of the purchasing power of dollars in

- A) 2007. B) 2008. C) 2009. D) 2010.

Answer: B

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Revised

26) When GDP and other national income accounts are measured in nominal values, then they

- A) are measured in current market prices.
 B) are measured in real values.
 C) are not comparable because they are not in real terms.
 D) should be converted into money values before comparing them over time.

Answer: A

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

27) Between two years, GDP at constant prices increased by 5 percent while GDP at current prices increased by 8 percent. Based on this information, the price level

- A) increased by 3 percent. B) increased by 13 percent.
 C) decreased by 3 percent. D) decreased by 13 percent.

Answer: A

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Revised

28) The GDP deflator is equal to.

- A) nominal GDP divided by real GDP. B) nominal GDP multiplied by real GDP.
 C) nominal GDP minus real GDP. D) nominal GDP plus real GDP.

Answer: A

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 29) Which of the following represents how real GDP is calculated?
- A) nominal GDP multiplied by the GDP deflator
 - B) nominal GDP divided by the population
 - C) nominal GDP divided by the PPI, the producer price index
 - D) nominal GDP divided by the GDP deflator

Answer: D

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 30) The nominal value of an economic variable is
- A) the consumer price index.
 - B) the producer price.
 - C) expressed in terms of actual market prices at which goods are sold.
 - D) computed by taking the nominal value and dividing by the appropriate price index.

Answer: C

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 31) The real value of an economic variable is
- A) the consumer price index.
 - B) the producer price.
 - C) expressed in terms of actual market prices at which goods are sold.
 - D) computed by taking the nominal value and dividing by the appropriate price index.

Answer: D

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 32) Constant dollars are
- A) the same as current dollars.
 - B) dollars corrected for general price level changes.
 - C) what nominal GDP is measured in.
 - D) when an individual does not receive a cost of living increase.

Answer: B

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

33) The values of variables such as GDP expressed in current dollars are referred to as

- A) the price index.
- B) a deflator.
- C) nominal values.
- D) real values.

Answer: C

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

34) Measurement of economic values after adjustments have been made for changes in the average of prices between years is known as

- A) the price index.
- B) a deflator.
- C) nominal values.
- D) real values.

Answer: D

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

35) Real GDP is

- A) the nominal value of all real goods produced in the nation in a year.
- B) GDP corrected for changes in the average of overall prices.
- C) a misnomer since all GDP figures have to be in dollar values.
- D) the value of output in current dollars.

Answer: B

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

36) Comparing two countries' nominal GDP over time is likely to be misleading if one wants to determine whether standards of living are better in one country because

- A) the figures must be adjusted for different types of currency.
- B) the figures must be adjusted for price changes and population differences.
- C) the figures must be adjusted to account for production differences.
- D) NDP instead of GDP should be used.

Answer: B

Diff: 3

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 41) If a nation's nominal GDP is \$3,257 million and its price level is 132, then its real GDP is
- A) \$4.05 million.
 - B) \$24.67 million.
 - C) \$4299.24 million.
 - D) \$2467.42 million.

Answer: D

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 42) Suppose nominal GDP in Canada increased by 5% in 2010. Given this information, we know with certainty that
- A) the aggregate price level in Canada increased in 2010.
 - B) real GDP in Canada increased in 2010 .
 - C) both the aggregate price level AND real GDP increased in Canada in 2010.
 - D) more information is needed to answer this question.

Answer: D

Diff: 3

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 43) Nominal GDP is calculated using
- A) the market prices during the year under consideration.
 - B) the prices from some base year to adjust for price changes.
 - C) the average of prices from the three preceding years.
 - D) the prices from the preceding year.

Answer: A

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 44) Real GDP is
- A) nominal GDP adjusted for depreciation.
 - B) nominal GDP adjusted for price changes.
 - C) nominal GDP adjusted for transfer payments.
 - D) nominal GDP adjusted for indirect business taxes.

Answer: B

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 45) Measuring total aggregate production in current dollars uses which of the following measures?
- A) real personal income
 - B) real gross domestic product
 - C) nominal gross domestic product
 - D) nominal net domestic product

Answer: C

Diff: 2

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 46) Assume that the nominal GDP for a given year is equal to \$12,400 billion and the GDP deflator equals 112. Real GDP for that year is approximately

A) \$13,888.0 billion. B) \$12,512.0 billion.
C) \$11,071.4 billion. D) \$12,228.1 billion.

Answer: C

Diff: 3

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 47) Constant dollars are dollars

A) corrected for general price level changes.
B) measured in terms of current-year prices.
C) issued by the U.S. Treasury with values that fail to change even in the face of inflation or deflation.
D) issued by the Federal Reserve with values that fail to change even in the face of inflation or deflation.

Answer: A

Diff: 2

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 48) When one converts nominal GDP to real GDP, one takes into account which of the following?

A) changes in the population B) changes in the quality of goods
C) changes in the distribution of income D) none of the above

Answer: D

Diff: 1

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 49) Measuring total aggregate production in constant dollars uses which of the following measures?

A) real personal income B) real gross domestic product
C) nominal gross domestic product D) nominal net domestic product

Answer: B

Diff: 2

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

Year	Nominal GDP (billions of dollars per year)	Price Level Index (base year 2005 = 100)
2005	8,950	100
2009	9,250	120

- 50) Using the data in the above table, what is the real GDP for year 2005 (in billions of constant dollars)?

A) 9,250 B) 8,500 C) 7,708 D) 8,950

Answer: D

Diff: 2

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Previous Edition

- 51) Using the data in the above table, what is the real GDP for year 2009 (in billions of constant dollars)?

A) 9,250 B) 8,500 C) 7,708 D) 8,950

Answer: C

Diff: 3

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Revised

- 52) Which of the following statements is true?

A) During periods of inflation, nominal GDP increases more rapidly than does real GDP.
 B) Nominal values are expressed in constant dollars.
 C) Real values are expressed in current dollars.
 D) Increases in real GDP are evidence that the distribution of wealth is becoming more equal.

Answer: A

Diff: 3

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Revised

- 53) Is looking at changes in gross domestic product over time a good way to determine whether the people in a country are experiencing an increase in their standards of living? Why or why not?

Answer: No. GDP figures need to be corrected for inflation, so real GDP and not nominal GDP should be used. But even using real GDP may be incorrect because increases in real GDP will not mean a higher standard of living if population is growing faster yet. A better measure is per capita real GDP. Even this is not perfect because there are many important economic activities that are not included in real GDP, and real GDP figures ignore household production and the value of leisure time.

Diff: 3

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Reflective thinking skills

Question Status: Previous Edition

8.6 Comparing GDP Throughout the World

- 1) The most accurate way to compare standards of living throughout the world is to look at
- A) total Gross Domestic Product (GDP).
 - B) GNP.
 - C) purchasing power parity.
 - D) foreign exchange rates.

Answer: C

Diff: 1

Topic: 8.6 Comparing GDP Throughout the World

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 2) The foreign exchange rate is
- A) an adjustment that takes into account differences in the true cost of living across countries.
 - B) the price of one currency in terms of another.
 - C) another name for purchasing power parity.
 - D) part of the circular flow diagram.

Answer: B

Diff: 1

Topic: 8.6 Comparing GDP Throughout the World

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 3) Comparing GDP across countries is unrealistic unless we make adjustment in exchange rates to take into account differences in the cost of living via
- A) real GDP.
 - B) purchasing power parity.
 - C) price index.
 - D) international GDP.

Answer: B

Diff: 1

Topic: 8.6 Comparing GDP Throughout the World

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 4) Purchasing power parity refers to
- A) adjustments in GDP figures to put everything into one common currency for comparison sake.
 - B) adjustments in exchange rate conversions that take into account differences in inflation rates across countries.
 - C) adjustments in exchange rate conversions that take into account the differences in true cost of living across countries.
 - D) calculating real, per capita GDP in dollars.

Answer: C

Diff: 1

Topic: 8.6 Comparing GDP Throughout the World

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 5) The problem with using foreign exchange rates to convert one country's GDP into dollars is that
- A) the values of currencies are not comparable.
 - B) exchange rates do not reflect differences in inflation rates.
 - C) not all goods and services are sold on world markets.
 - D) the dollar has been losing value over the last twenty years.

Answer: C

Diff: 2

Topic: 8.6 Comparing GDP Throughout the World

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 6) To find the U.S. dollar equivalent of a given amount of Mexican pesos, you would have to know
- A) per capita GDP in Mexico.
 - B) per capita GDP in the United States.
 - C) per capita GDP in both the United States and Mexico.
 - D) the foreign exchange rate between dollars and pesos.

Answer: D

Diff: 2

Topic: 8.6 Comparing GDP Throughout the World

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 7) A purchasing power parity index would help you
- A) predict changes in U.S. real GDP.
 - B) identify those goods and services that are becoming relatively more important in chain-weighted GDP.
 - C) make international comparisons of living standards.
 - D) estimate the growth rate of U.S. personal income.

Answer: C

Diff: 3

Topic: 8.6 Comparing GDP Throughout the World

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 8) The foreign exchange rate
- A) is the price of one good or service as compared to a similar good or service.
 - B) is the same as the price of a product in U.S. dollars.
 - C) is not relevant when comparing the GDPs of various countries.
 - D) is the price of one currency in terms of another.

Answer: D

Diff: 2

Topic: 8.6 Comparing GDP Throughout the World

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 9) Of the following, which country has the highest annual real GDP per capita according to the International Monetary Fund and World Bank?

A) China B) Italy C) United States D) Brazil

Answer: C

Diff: 2

Topic: 8.6 Comparing GDP Throughout the World

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 10) Purchasing power parity exists when domestic currency
- A) maintains a fixed exchange rate with a foreign currency.
 - B) is not convertible to a foreign currency.
 - C) buys more goods at home than abroad.
 - D) buys as many goods abroad as at home.

Answer: D

Diff: 1

Topic: 8.6 Comparing GDP Throughout the World

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 11) Assume that a GM car sells for \$20,000 in the United States and that the exchange rate is \$1 = 1.3 euros. For purchasing power parity to hold, the same car in Italy should sell for
- A) 20,000 euros.
 - B) 15,385 euros.
 - C) 26,000 euros.
 - D) 16,542 euros.

Answer: C

Diff: 1

Topic: 8.6 Comparing GDP Throughout the World

AACSB: Dynamics of the global economy

Question Status: Revised

- 12) How many U.S. dollars does a U.S. importer need to pay for an invoice of 1 million yen when the price of 1 yen is \$0.006?
- A) \$1,666 million
 - B) \$1.66 million
 - C) \$166.7
 - D) \$6,000

Answer: D

Diff: 2

Topic: 8.6 Comparing GDP Throughout the World

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 13) Which of the following allows us to compare average levels of real production per person in different nations in a way that adjusts for differences in true costs of living?
- A) nominal GDP based on purchasing power parity
 - B) per capita real GDP based on purchasing power parity
 - C) real GDP based on foreign exchange rates
 - D) per capita nominal GDP based on foreign exchange rates

Answer: B

Diff: 2

Topic: 8.6 Comparing GDP Throughout the World

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 14) Suppose you know that a certain country with a growing population has experienced steady growth in real per capita GDP. What do you then also know to be true?
- A) The distribution of income in this country has become relatively more equal.
 - B) The growth in goods and services produced and exchanged in the marketplace has outpaced the growth in population.
 - C) This country exports more than it imports.
 - D) This country imports more than it exports.

Answer: B

Diff: 2

Topic: 8.6 Comparing GDP Throughout the World

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 15) The adjustment in exchange rate conversions that takes into account differences in the true cost of living across countries is called
- A) nominal purchasing power.
 - B) purchasing power parity.
 - C) raw purchasing power.
 - D) currency-adjusted purchasing power.

Answer: B

Diff: 1

Topic: 8.6 Comparing GDP Throughout the World

AACSB: Dynamics of the global economy

Question Status: Previous Edition

- 16) The most meaningful way to compare per capita Gross Domestic Product (GDP) across countries is to
- A) use foreign exchange rates to convert each country's per capita Gross Domestic Product (GDP) into dollars. Then compare.
 - B) first adjust each country's per capita Gross Domestic Product (GDP) to exclude all the goods and services that are not exchanged with other countries.
 - C) assume that the cost of living in each country is the same as the United States' cost of living.
 - D) first use purchasing power parity to factor in each country's true cost of living.

Answer: D

Diff: 2

Topic: 8.5 Distinguishing Between Nominal and Real Values

AACSB: Analytic skills

Question Status: Revised

- 17) How can we compare standards of living across countries?

Answer: It is difficult to compare standards of living across countries. Per capita Gross Domestic Product (GDP) is a good starting point, but figures using different currencies must be converted to one currency if comparisons are to be made. There are problems with using the exchange rate to make these conversions because not all goods and services are sold in world markets. The best measure is to use purchasing power parity comparisons, but this has drawbacks, too, because the value of leisure and the value of household production are not included.

Diff: 3

Topic: 8.6 Comparing GDP Throughout the World

AACSB: Dynamics of the global economy

Question Status: Previous Edition