

Name \_\_\_\_\_

ID: \_\_\_\_\_

**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

- 1) Which of the following is a primary use for national income accounts? 1) \_\_\_\_\_
  - A) To measure changes in the value of production and income in the economy
  - B) To analyze the environmental cost of economic growth
  - C) To determine whether there is a fair and equitable distribution of income in the economy
  - D) To assess the economic efficiency of specific industries in the economy
- 2) GDP is the market value of: 2) \_\_\_\_\_
  - A) Resources (land, labor, capital, and entrepreneurship) in an economy in a given year
  - B) Consumption and investment spending in an economy in a given year
  - C) All output produced and accumulated over the years
  - D) All final goods and services produced in an economy in a given year
- 3) An example of final goods in national income accounts would be: 3) \_\_\_\_\_
  - A) Chemicals purchased by Green Grass Lawn Care Services
  - B) Seedlings and saplings purchased for resale by Wendy's Garden Center
  - C) New lawn mowers purchased by Cut-Rite Lawn Equipment & Supplies
  - D) Flowers and pots purchased by homeowner Joe Smith
- 4) An example of intermediate goods would be: 4) \_\_\_\_\_
  - A) Paper and ink bought by a publishing company
  - B) Sacks of groceries bought by a dentist for his family
  - C) Bricks bought by a homeowner for constructing a patio
  - D) Cars bought by a car-rental company
- 5) The total volume of business sales in our economy is several times larger than GDP because: 5) \_\_\_\_\_
  - A) Total sales are in money terms and GDP is always stated in real terms
  - B) The GDP grossly understates the value of our annual output
  - C) The GDP excludes intermediate transactions
  - D) The GDP does not take taxes into account
- 6) Which of the following is a private transfer payment? 6) \_\_\_\_\_
  - A) The Social Security benefits paid to a retired worker
  - B) Unemployment benefits received by newly laid-off workers
  - C) The sale of used clothing at a thrift store
  - D) A check for \$250 sent by a parent to a daughter at college

- 7) Firm A produces something that Firm B uses as an input. The product of Firm B, in turn, is purchased and used as an input by Firm C, and so on down the line through Firm E, which produces the end product. The total value added by Firms A-E from the production of the end product described here is: 7) \_\_\_\_\_

Stage of Production	Sales Value of Materials or Products
<b>Firm A</b>	<b>\$800</b>
<b>Firm B</b>	<b>1,250</b>
<b>Firm C</b>	<b>1,850</b>
<b>Firm D</b>	<b>2,600</b>
<b>Firm E</b>	<b>3,800</b>
A) \$6,500	B) \$3,800
C) \$10,300	D) \$3,000

- 8) Which of the following is *not* included in personal consumption expenditures? 8) \_\_\_\_\_
- A) Purchases of mutual funds by consumers
  - B) New furniture and appliances bought by homeowners
  - C) Payments for cable and Internet services to homes
  - D) Food purchased at supermarkets
- 9) Money spent on the purchase of a *new* house is included in the GDP as a part of: 9) \_\_\_\_\_
- A) Household expenditures on durable goods
  - B) Personal consumption expenditures
  - C) Gross domestic private investment
  - D) Personal saving
- 10) In an economy, the value of inventories was \$75 billion in 2009 and \$63 billion in 2010. In calculating total investment for 2010, national income accountants would: 10) \_\_\_\_\_
- A) Increase it by \$63 billion
  - B) Decrease it by \$75 billion
  - C) Decrease it by \$12 billion
  - D) Increase it by \$138 billion
- 11) Government purchases in national income accounts would include payments for: 11) \_\_\_\_\_
- A) Salaries for current U.S. military officers
  - B) Unemployment benefits
  - C) Social Security checks to retirees
  - D) Public assistance for welfare recipients
- 12) In the expenditures approach of national income accounting, C, I<sub>g</sub>, and G include expenditures for: 12) \_\_\_\_\_
- A) The private sector of the economy only
  - B) Domestically produced goods and services only
  - C) Exported goods and services
  - D) Domestically produced as well as imported goods and services

- 13) GDP in an economy is \$11,050 billion. Consumer expenditures are \$7,735 billion, government purchases are \$1,989 billion, and gross investment is \$1,410 billion. Net exports must be: 13) \_\_\_\_\_
- A) -\$84 billion B) -\$47 billion  
C) -\$161 billion D) +\$53 billion

- 14) The following are national income account data for a hypothetical economy in billions of dollars: government purchases (\$1,050); personal consumption expenditures (\$4,800); imports (\$370); exports (\$240); gross private domestic investment (\$1,130). Personal consumption expenditures are approximately what percentage of this economy? 14) \_\_\_\_\_
- A) 60 percent B) 75 percent C) 70 percent D) 65 percent

- 15) (The following national income data are in billions of dollars.) 15) \_\_\_\_\_

<b>Disposable Income</b>	<b>\$200</b>
<b>Net Private Domestic Investment</b>	<b>40</b>
<b>US Imports</b>	<b>15</b>
<b>National Income</b>	<b>300</b>
<b>Personal Taxes</b>	<b>31</b>
<b>Net Exports</b>	<b>9</b>
<b>Gross Private Domestic Investment</b>	<b>55</b>
<b>Net Foreign Factor Income</b>	<b>10</b>
<b>Statistical Discrepancy</b>	<b>0</b>

Refer to the above data. This nation's GDP is:

- A) \$305 billion B) \$367 billion C) \$315 billion D) \$324 billion
- 16) Depreciation is all of the following, *except*. 16) \_\_\_\_\_
- A) The accumulation of capital stock  
B) The difference between gross investment and net investment  
C) The difference between GDP and NDP  
D) The consumption of fixed capital
- 17) The amount of new output produced per year for both consumption and additions to capital stock is measured by: 17) \_\_\_\_\_
- A) Net exports B) Net investment  
C) GDP D) NDP
- 18) The GDP deflator or price index equals: 18) \_\_\_\_\_
- A) Real GDP divided by nominal GDP  
B) Gross private domestic investment less the consumption of fixed capital  
C) Gross national product less net foreign factor income earned in the United States  
D) Nominal GDP divided by real GDP

19) (The following national income data for an economy are in billions of dollars.)

19) \_\_\_\_\_

<b>Gross Private Domestic Investment</b>	<b>\$1,593</b>
<b>Personal Taxes</b>	<b>1,113</b>
<b>Transfer Payments</b>	<b>1,683</b>
<b>Taxes on Production and Imports</b>	<b>695</b>
<b>Corporate Income Taxes</b>	<b>213</b>
<b>Personal Consumption Expenditures</b>	<b>7,304</b>
<b>Consumption of Fixed Capital</b>	<b>1,393</b>
<b>US Exports</b>	<b>1,059</b>
<b>Dividends</b>	<b>434</b>
<b>Government Purchases</b>	<b>1,973</b>
<b>Net Foreign Factor Income</b>	<b>10</b>
<b>Undistributed Corporate Profits</b>	<b>141</b>
<b>Social Security Contributions</b>	<b>748</b>
<b>US Imports</b>	<b>1,483</b>
<b>Statistical Discrepancy</b>	<b>50</b>

Refer to the above data. The net private domestic investment in this economy is equal to:

- A) \$1,643 billion
- B) -\$424 billion
- C) \$200 billion
- D) \$1,793 billion

20) "GDP price index" measures changes in the:

20) \_\_\_\_\_

- A) Prices of the output produced in the nation
- B) Amount of resources available in the nation
- C) Cost of resources employed in the nation
- D) Value of final output produced in the nation

	<b>Year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
21)	<b>Price Index</b>	<b>100</b>	<b>95</b>	<b>105</b>	<b>125</b>	<b>125</b>	<b>120</b>

21) \_\_\_\_\_

Refer to the above table. The base year of the price index given in the table is:

- A) Year 1
- B) Year 2
- C) Year 3
- D) Year 4

22) If prices increased, we need to adjust nominal GDP values to give us a measure of GDP for various years in constant-dollar terms. We refer to that adjustment as:

22) \_\_\_\_\_

- A) Compounding GDP
- B) Inflating GDP
- C) Deflating GDP
- D) Indexing GDP

- 23) In an economy, the total expenditures for a market basket of goods in year 1 (the base year) was \$5,000 billion. In year 2, the total expenditure for the same market basket of goods was \$5,500 billion. What was the GDP price index for the economy in year 2? 23) \_\_\_\_\_
- A) 110                      B) 120                      C) 100                      D) 115

- 24) (GDP figures are in billions of dollars.) 24) \_\_\_\_\_

Year	Nominal GDP	Real GDP	Price Index
1	5,200	4,800	_____
2	5,500	_____	112
3	5,740	5,000	_____

Refer to the above table. What is the GDP price index in Year 1?

- A) 111.5                      B) 109.6                      C) 108.3                      D) 105.2
- 25) GDP measured using current prices is called: 25) \_\_\_\_\_
- A) Constant GDP                      B) Deflated GDP  
C) Nominal GDP                      D) Real GDP

**TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.**

- 26) GDP tends to understate economic welfare because it does not take into account increases in leisure. 26) \_\_\_\_\_
- 27) The value of a price index in the base year is always 100. 27) \_\_\_\_\_
- 28) If nominal GDP in one year is \$5,000 billion and the price index is 135, then the real GDP that year would be \$3,704 billion. 28) \_\_\_\_\_
- 29) In the expenditures approach, transfer payments such as unemployment compensation are included in the G component of GDP. 29) \_\_\_\_\_
- 30) Government purchases are the largest component of aggregate expenditures in the United States. 30) \_\_\_\_\_

Answer Key

Testname: ECON\_2013\_PROBLEM\_SET\_CH7

- 1) A
- 2) D
- 3) D
- 4) A
- 5) C
- 6) D
- 7) B
- 8) A
- 9) C
- 10) C
- 11) A
- 12) D
- 13) A
- 14) C
- 15) A
- 16) A
- 17) D
- 18) D
- 19) C
- 20) A
- 21) A
- 22) C
- 23) A
- 24) C
- 25) C
- 26) TRUE
- 27) TRUE
- 28) TRUE
- 29) FALSE
- 30) FALSE