

Chapter 22

Measuring a Nation's Income

Test A

1. Macroeconomics is the study of
 - a. market regulation.
 - b. money and financial markets.
 - c. economy-wide phenomena.
 - d. how households and firms make decisions and how they interact.

ANSWER: c. economy-wide phenomena.

TYPE: M SECTION: INT OBJECTIVE: RANDOM: Y

2. For the economy as a whole
 - a. expenditure exceeds income because of taxes.
 - b. income must equal expenditure.
 - c. income exceeds expenditure because of saving.
 - d. expenditure exceeds income because of the government budget deficit.

ANSWER: b. income must equal expenditure.

TYPE: M SECTION: 1 OBJECTIVE: 1 RANDOM: Y

3. A circular-flow diagram is used to describe
 - a. how banks create money.
 - b. how weather patterns affect the economy.
 - c. the most efficient organization of the work process.
 - d. the flow of income and expenditures in an economy.

ANSWER: d. the flow of income and expenditures in an economy.

TYPE: M SECTION: 1 OBJECTIVE: 1 RANDOM: Y

4. Gross Domestic Product is defined as the market value of
 - a. all final goods and services produced by a country's citizens in a given period of time.
 - b. every good and service produced within a country in a given period of time.
 - c. all final goods and services produced within a country in a given period of time.
 - d. all goods and services produced by a country's citizens in a given period of time.

ANSWER: c. all final goods and services produced within a country in a given period of time.

TYPE: M SECTION: 1 OBJECTIVE: 1 RANDOM: Y

5. Goods and services produced and sold illegally are
- excluded from GDP.
 - included in GDP.
 - included in GDP only if income from the sales is reported on income tax returns.
 - included in GDP to the extent that they can be measured.

ANSWER: a. excluded from GDP.

TYPE: M SECTION: 2 OBJECTIVE: 2 RANDOM: Y

6. Latrell decides to hire Cynthia to mow his lawn, instead of mowing it himself, as he is accustomed to doing. As a result of this transaction, GDP
- will decrease.
 - will increase.
 - will be unaffected because the same service would be performed in either case.
 - could increase or decrease, depending on whether Cynthia mows Latrell's lawn as well as Latrell could mow it himself.

ANSWER: b. will increase.

TYPE: M SECTION: 2 OBJECTIVE: 2 RANDOM: Y

7. The value of intermediate goods that are sold is
- not added to GDP.
 - added to GDP if they were produced in a previous year.
 - added to GDP if they were produced and sold in the current year.
 - added to GDP unless they are sold at a loss.

ANSWER: a. not added to GDP.

TYPE: M SECTION: 2 OBJECTIVE: 2 RANDOM: Y

8. An American company owns a fast-food store in Lima, Peru. The value of the goods and services produced in the store are included
- in both Peruvian GDP and U.S. GDP.
 - in Peruvian GDP, but not U.S. GDP.
 - in U.S. GDP, but not Peruvian GDP.
 - partly in Peruvian GDP and partly in U.S. GDP.

ANSWER: b. in Peruvian GDP, but not U.S. GDP.

TYPE: M SECTION: 2 OBJECTIVE: 2 RANDOM: Y

9. National income is defined as
- all income produced within a country.
 - the income received by the national government.
 - the total income earned by a nation's residents from the production of goods and services within the borders of the country.
 - the total income earned by a nation's residents in the production of goods and services.

ANSWER: d. the total income earned by a nation's residents in the production of goods and services.

TYPE: M SECTION: 2 OBJECTIVE: 2 RANDOM: Y

10. The government reports that GDP "increased by 2 percent in the last quarter."
- GDP increased by 10 percent for the year.
 - GDP increased at an annual rate of 2 percent during the last quarter.
 - GDP increased at an annual rate of 8 percent during the last quarter.
 - GDP increased at an annual rate of .5 percent during the last quarter.

ANSWER: c. GDP increased at an annual rate of 8 percent during the last quarter.

TYPE: M SECTION: 2 OBJECTIVE: 2 RANDOM: Y

11. The four components of GDP are consumption,
- money supply, government purchases, and exports.
 - investment, transfer payments, and imports.
 - investment, government purchases, and net exports.
 - investment, government purchases, and foreign exchange.

ANSWER: c. investment, government purchases, and net exports.

TYPE: M SECTION: 3 OBJECTIVE: 3 RANDOM: Y

12. In macroeconomics, investment is spending on
- real estate and financial assets.
 - capital equipment, inventories, and structures, including new housing.
 - stocks, bonds, and other financial assets.
 - capital equipment, inventories, and structures, excluding household purchases of new housing.

ANSWER: b. capital equipment, inventories, and structures, including new housing.

TYPE: M SECTION: 3 OBJECTIVE: 3 RANDOM: Y

13. Government purchases include spending on goods and services by
- local, state and federal governments.
 - the federal government only.
 - local and state governments, but not the federal government.
 - state and federal governments only.

ANSWER: a. local, state, and federal governments.

TYPE: M SECTION: 3 OBJECTIVE: 3 RANDOM: Y

14. If exports are smaller than imports, net exports
- are positive.
 - are negative.
 - will increase GDP.
 - are larger than imports.

ANSWER: b. are negative.

TYPE: M SECTION: 3 OBJECTIVE: 3 RANDOM: Y

15. Transfer payments are
- included in GDP because they represent income to individuals.
 - not included in GDP unless they represent unemployment compensation.
 - included in GDP because the income will be spent for consumption.
 - not included in GDP because they do not represent payments for currently produced goods or services.

ANSWER: d. not included in GDP because they do not represent payments for currently produced goods or services.

TYPE: M SECTION: 3 OBJECTIVE: 3 RANDOM: Y

16. In 1998, U.S. GDP was about
- \$85 trillion.
 - \$8.5 trillion.
 - \$850 billion.
 - \$85 billion.

ANSWER: b. \$8.5 trillion.

TYPE: M SECTION: 3 OBJECTIVE: 3 RANDOM: Y

17. If total spending rises from one year to the next, then
- net exports must be falling.
 - prices at which goods and services are sold must be higher.
 - the economy must be producing a larger output of goods and services.
 - either the economy must be producing a larger output of goods and services, or the prices at which goods and services are sold must be higher, or both.

ANSWER: d. either the economy must be producing a larger output of goods and services, or the prices at which goods and services are sold must be higher, or both.

TYPE: M SECTION: 4 OBJECTIVE: 4 RANDOM: Y

18. The best measure of a country's production of goods and services is
- real GDP.
 - real NNP.
 - nominal GDP.
 - nominal GNP.

ANSWER: a. real GDP.

TYPE: M SECTION: 4 OBJECTIVE: 4 RANDOM: Y

19. Real GDP is the production of goods and services valued at
- current year prices.
 - future year prices.
 - constant prices.
 - the ratio of current year prices to constant year prices.

ANSWER: c. constant prices.

TYPE: M SECTION: 4 OBJECTIVE: 4 RANDOM: Y

20. The GDP deflator is the ratio of
- nominal GDP to real GDP.
 - real GDP to nominal GDP.
 - nominal GDP to real GDP multiplied by 100.
 - real GDP to nominal GDP multiplied by 100.

ANSWER: c. nominal GDP to real GDP multiplied by 100.

TYPE: M SECTION: 4 OBJECTIVE: 4 RANDOM: Y

21. If the GDP deflator is 150 and nominal GDP is \$9,000 billion, then real GDP is
- a. \$135 billion.
 - b. \$1,350 billion.
 - c. \$600 billion.
 - d. \$6,000 billion.

ANSWER: d. \$6,000 billion.

TYPE: M SECTION: 4 OBJECTIVE: 4 RANDOM: Y

22. If the GDP deflator was 100 in the base year of 2000, and was 105 in 2002, we can say that
- a. the price level increased by 5 percent from 2000 to 2002.
 - b. the price level increased by 105 percent from 2000 to 2002.
 - c. the price level increased by 205 percent from 2000 to 2002.
 - d. we cannot judge price increases from changes in the GDP deflator.

ANSWER: a. the price level increased by 5 percent from 2000 to 2002.

TYPE: M SECTION: 4 OBJECTIVE: 4 RANDOM: Y

23. GDP is used as the basic measure of a society's economic well-being. A better measure of the economic well-being of individuals in society is
- a. the consumption component of GDP.
 - b. GDP per person.
 - c. government expenditures per person.
 - d. the level of business investment.

ANSWER: b. GDP per person.

TYPE: M SECTION: 5 OBJECTIVE: 5 RANDOM: Y

24. GDP per person is not a perfect measure of the well-being of individuals in society because it excludes
- a. the role of government.
 - b. the value of investment in real capital.
 - c. the value of money.
 - d. things like leisure time, the value of goods and services produced at home, and environmental quality.

ANSWER: d. things like leisure time, the value of goods and services produced at home, and environmental quality.

TYPE: M SECTION: 5 OBJECTIVE: 5 RANDOM: Y

25. International studies of the relationship between GDP per person and quality of life measures, such as life expectancy and literacy rates show that larger GDP per person is associated with
- longer life expectancy and higher levels of illiteracy.
 - shorter life expectancy and higher levels of illiteracy.
 - longer life expectancy and lower levels of illiteracy.
 - shorter life expectancy and lower levels of illiteracy.

ANSWER: c. longer life expectancy and lower levels of illiteracy.

TYPE: M SECTION: 5 OBJECTIVE: 5 RANDOM: Y

1 ANSWER: c. economy-wide phenomena.

TYPE: M SECTION: INT OBJECTIVE: RANDOM: Y

2 ANSWER: b. income must equal expenditure.

TYPE: M SECTION: 1 OBJECTIVE: 1 RANDOM: Y

3 ANSWER: d. the flow of income and expenditures in an economy.

TYPE: M SECTION: 1 OBJECTIVE: 1 RANDOM: Y

4 ANSWER: c. all final goods and services produced within a country in a given period of time.

TYPE: M SECTION: 1 OBJECTIVE: 1 RANDOM: Y

5 ANSWER: a. excluded from GDP.

TYPE: M SECTION: 2 OBJECTIVE: 2 RANDOM: Y

6 ANSWER: b. will increase.

TYPE: M SECTION: 2 OBJECTIVE: 2 RANDOM: Y

7 ANSWER: a. not added to GDP.

TYPE: M SECTION: 2 OBJECTIVE: 2 RANDOM: Y

8 ANSWER: b. in Peruvian GDP, but not U.S. GDP.

TYPE: M SECTION: 2 OBJECTIVE: 2 RANDOM: Y

9 ANSWER: d. the total income earned by a nation's residents in the production of goods and services.

TYPE: M SECTION: 2 OBJECTIVE: 2 RANDOM: Y

10 ANSWER: c. GDP increased at an annual rate of 8 percent during the last quarter.

TYPE: M SECTION: 2 OBJECTIVE: 2 RANDOM: Y

11 ANSWER: c. investment, government purchases, and net exports.

TYPE: M SECTION: 3 OBJECTIVE: 3 RANDOM: Y

12 ANSWER: b. capital equipment, inventories, and structures, including new housing.

TYPE: M SECTION: 3 OBJECTIVE: 3 RANDOM: Y

13 ANSWER: a. local, state, and federal governments.

TYPE: M SECTION: 3 OBJECTIVE: 3 RANDOM: Y

14 ANSWER: b. are negative.

TYPE: M SECTION: 3 OBJECTIVE: 3 RANDOM: Y

15 ANSWER: d. not included in GDP because they do not represent payments for currently produced goods or services.

TYPE: M SECTION: 3 OBJECTIVE: 3 RANDOM: Y

16 ANSWER: b. \$8.5 trillion.

TYPE: M SECTION: 3 OBJECTIVE: 3 RANDOM: Y

17 ANSWER: d. either the economy must be producing a larger output of goods and services, or the prices at which goods and services are sold must be higher, or both.

TYPE: M SECTION: 4 OBJECTIVE: 4 RANDOM: Y

18 ANSWER: a. real GDP.

TYPE: M SECTION: 4 OBJECTIVE: 4 RANDOM: Y

19 ANSWER: c. constant prices.

TYPE: M SECTION: 4 OBJECTIVE: 4 RANDOM: Y

20 ANSWER: c. nominal GDP to real GDP multiplied by 100.

TYPE: M SECTION: 4 OBJECTIVE: 4 RANDOM: Y

21 ANSWER: d. \$6,000 billion.

TYPE: M SECTION: 4 OBJECTIVE: 4 RANDOM: Y

22 ANSWER: a. the price level increased by 5 percent from 2000 to 2002.

TYPE: M SECTION: 4 OBJECTIVE: 4 RANDOM: Y

23 ANSWER: b. GDP per person.

TYPE: M SECTION: 5 OBJECTIVE: 5 RANDOM: Y

24 ANSWER: d. things like leisure time, the value of goods and services produced at home, and environmental quality.

TYPE: M SECTION: 5 OBJECTIVE: 5 RANDOM: Y

25 ANSWER: c. longer life expectancy and lower levels of illiteracy.

TYPE: M SECTION: 5 OBJECTIVE: 5 RANDOM: Y