Chapter 6

1. Which of the following fits the definition of GDP?
   a) The value of output produced by factors of production located within a country.
   b) The value of all final goods and services produced within a given period.
   c) The market value of a country's output.
   d) All of the above.

2. To arrive at GDP, the Bureau of Economic Analysis (BEA) counts:
   a) Value added plus the value of sales at the retail level.
   b) The value of intermediate goods and final goods.
   c) The value of final sales.
   d) The value of total sales, including sales to suppliers and sales to consumers.
   e) Any of the above.

3. What is *value added*?
   a) Value added is the difference between the value of goods as they leave a stage of production and the cost of the goods as they entered that stage.
   b) Value added refers to goods and services produced for final use.
   c) Value added is data collected and published by the government describing the various components of national income and output in the economy.
   d) Value added refers to goods that are produced by one firm for use in further processing by another firm.

4. Which of the following is counted in GDP?
   a) The sale of stocks and bonds.
   b) The fee paid to a broker for selling a stock.
   c) The sale of a used car.
   d) The sale of an old house.
   e) None of the above.

5. Which of the following is counted in GDP?
   a) The profits earned abroad by U.S. companies.
   b) The output produced by foreigners working in U.S. companies abroad.
   c) The profits earned in the Unites States by foreign-owned companies.
   d) The output produced by U.S. citizens abroad.

6. Which of the following is true about the difference between gross domestic product (GDP) and gross national product (GNP)?
   a) The wages paid to U.S. workers working in a Japanese factory in the United States are counted as part of U.S. GNP.
   b) For most countries, the difference between GDP and GNP is quite substantial.

c) When a Japanese company earns profits in the United States, those profits are counted as part of Japanese GDP, but not as part of Japanese GNP.

d) GNP measures output produced by factors of production owned by U.S. citizens within the United States.

7. What are the two ways in which GDP can be computed?
   a) Nominal GDP and real GDP.
   b) *National income* accounts and *national product* accounts.
   c) By adding up the value of intermediate goods or by adding up the value of final goods.
   d) The expenditure approach and the income approach.

8. When counting GDP using the *income approach*, we add up:
   a) The value of resource payments, or factors of production.
   b) Durable goods, nondurable goods, and services.
   c) Consumption, investment, government spending, and net exports.
   d) All transactions in which money or goods change hands but in which no new goods and services are produced.

9. For the year 2004, the percentages of *C*, *I*, *G*, and (*EX* – *IM*) in U.S. aggregate expenditure were roughly as follows:
   a) 35%, 27%, 41%, and –3%.
   b) 24%, 35%, 45%, and –4%
   c) 40%, 18%, 25%, and 17%.
   d) 70%, 16%, 19%, and –5%.

10. The largest component of Personal Consumption Expenditures (*C*) is:
   a) Durable goods.
   b) Services.
   c) Nondurable goods.
   d) Residential Investment.
   e) Imports.

11. Which of the following categories are included in gross private domestic investment?
   a) Residential investment.
   b) Nonresidential investment.
   c) Change in business inventories.
   d) Depreciation.
   e) All of the above.

12. Changes in business inventories are:

Not counted in the value of GDP.

Counted as a component of the capital stock.

Counted as a component of investment.
Negative when production exceeds final sales.

13. Which of the following is the closest definition of the term *capital*?
   a) Depreciation
   b) Plant, equipment, and inventory.
   c) Financial investment
   d) Goods produced for present consumption
   e) Money.

14. Which of the following is the closest definition of the term *gross investment*?
   a) Gross investment is the value of newly produced capital goods.
   b) Gross investment is the purchase of goods for present consumption.
   c) Gross investment is the accumulation of previous capital.
   d) Gross investment is the purchase of financial assets, such as stocks and bonds.

15. Which of the following best describes the relationship between the stock of capital and investment?
   a) Capital at the beginning of this period equals capital at the end of this period plus net investment.
   b) Capital at the end of this period equals capital at the beginning of this period plus net investment.
   c) Capital at the end of this period equals capital at the beginning of this period plus gross investment.
   d) Capital at the beginning of this period equals gross investment plus net investment this period.

16. Which of the following expenditures are counted in the category of *government consumption and gross investment (G)*?
   a) Social Security benefits.
   b) Transfer payments.
   c) Expenditures by state and local governments.
   d) Interest payments on the government debt.

17. Which of the following statements about *exports* and *imports* is correct?
   a) Before 1976, the United States was generally a net importer. Only after 1976, exports began to exceed imports.
   b) Exports must be subtracted out of GDP to obtain the correct figure.
   c) Imports must be subtracted out of GDP to obtain the correct figure.
   d) The difference between exports and imports is negative when the country is a net exporter.

18. An examination of the components of GDP using the income approach reveals that:
   a) Rental income is a major component of national income.
   b) Proprietor's income refers to the profits earned by corporations.
   c) Net interest refers to interest paid by households, business firms, and the government.
   d) Compensation of employees is the largest item in national income.

19. In order to arrive at U.S. GDP using the *income approach*, we must:
   a) Add subsidies, or payments made by government to farmers, seniors, etc.
   b) Subtract the income earned by foreigners in the United States.
   c) Subtract depreciation from national income.
   d) Add indirect taxes to national income.
   e) Add the income earned by U.S. citizens abroad.

20. The difference between gross national product (GNP) and net national product (NNP) is:
   a) Net exports.
   b) Net interest.
   c) Depreciation.
   d) The surplus of government enterprises.

21. Personal saving is the amount of disposable income left after the following is subtracted from *disposable personal income*:
   a) Personal interest payments.
   b) Personal consumption expenditures.
   c) Transfer payments made by households.
   d) All of the above.

22. Fill in the blanks. Saving rates tend to ________ during recessionary periods and ________ during boom times.
   a) rise; rise
   b) rise; fall
   c) fall; rise
   d) fall; fall

23. The difference between nominal GDP and real GDP comes from:
   a) Changes in purchasing power of the dollar caused by changes in the exchanger rate.
   b) Changes in the level of income.
   c) Changes in prices.
   d) Differences in the value of GDP depending on whether the income approach or the expenditure approach is chosen to compute GDP.

24. An increase of 10% in nominal GDP indicates that:
a) Both real GDP and the price level could have contributed to that increase.
b) Real output has increased by 10%.
c) Real output and the aggregate price level have increased by 5% each.
d) The aggregate price level has increased by 10%.

25. Which of the following is true about the GDP calculations used by the Bureau of Economic Analysis (BEA)?
a) Prior to 1996, the BEA used a *fixed-weight procedure* to calculate GDP, where the prices that prevailed in the base year are used as weights to calculate changes in real GDP.
b) The choice of a particular base year can alter the growth rates of nominal and real GDP.
c) Using a *fixed-weight procedure* to calculate GDP, the prices that prevailed in the base year are used as weights to calculate changes in real GDP.
d) All of the above.

26. Which of the following is a measure of the overall price level?
a) The inflation rate.
b) The GDP deflator.
c) Nominal GDP.
d) Real GDP.

27. What are the limitations of the GDP concept?
a) Domestic activities such as childcare and housework are not counted in GDP, although they amount to real production.
b) GDP is neutral about the kinds of goods the economy produces.
c) GDP does not measure the effects of redistributive policies or the distribution of output and income among individuals in a society.
d) GDP does not reflect social losses associated with changes in output, such as crime and pollution although they represent real social losses.
e) All of the above. Coaching.

28. Legalizing all forms of illegal activities would:
a) Increase both the underground economy and GDP.
b) Reduce the underground economy and increase the value of GDP.
c) Increase the underground economy but reduce the value of GDP.
d) Reduce both the underground economy and GDP.

29. Which of the following measures is used for making international comparisons of output and per-capita income?
a) Net national product (NNP).
b) Gross National Income (GNI) per capita.

c) Personal Disposable Income.
d) Gross Domestic Product (GDP) per capita.

30. Which of the following three countries had the highest per capita income in 2004?
a) Nepal, Rwanda, and Ethiopia.
b) Denmark, Japan, and Sweden
c) Japan, United Kingdom, and the United States.
d) Norway, Switzerland, and the United States.

31. GDP includes goods both when they are purchased as inputs and when they are sold as final products.
a) True
b) False

32. GDP excludes transactions in which money or goods change hands but in which no new goods and services are produced.
a) True
b) False

33. U.S. GDP excludes the income of foreigners working in the United States.
a) True
b) False

34. U.S. GNP is the market value of all final goods and services produced, here and abroad, during a given period, by U.S.-owned factors of production.
a) True
b) False

35. Aggregate expenditure and aggregate income are two sides of the same coin.
a) True
b) False

36. Residential investment is the largest component of domestic household consumption.
a) True
b) False

37. When the value of exports exceeds the value of imports, the country faces a trade deficit.
a) True
b) False

38. Net investment equals gross investment plus depreciation.
a) True
b) False

39. Households use disposable income to consume, save, and pay taxes.
a) True
b) False

40. When the price level increases, nominal GDP increases even if no new goods and services are produced.

a) True
b) False

41. Refer to the table below.

	1997		2000	
	Price	Quantity	Price	Quantity
Food	500	75	750	110
Clothing	200	100	380	130

Answer the following questions:

a) How much was nominal GDP in 1997?
b) How much was nominal GDP in 2000?
c) If 1997 is used as the base year, what was real GDP in 2000?
d) Between 1997 and 2000, how much were the percentage changes in the prices of food and clothing, respectively? Is food in 2000 more or less expensive relative to clothing?
e) Using the year 1997 as the base year, what was the GDP price deflator in 2000?

42. The short definition of GDP is that GDP stands for Gross Domestic Product, or national output. Write the long definition of GDP and provide a brief explanation of key terms in that definition.

43. Higher GDP does not necessarily mean higher social welfare. Provide five arguments that support this assertion.