

Name: _____ Date: _____

1. Assume that total output consists of 4 apples and 6 oranges and that apples cost \$1 each and oranges cost \$0.50 each. In this case, the value of GDP is:
 - A) 10 pieces of fruit.
 - B) \$7.
 - C) \$8.
 - D) \$10.

2. When a firm sells a product out of inventory, investment expenditures _____ and consumption expenditures _____.
 - A) increase; decrease
 - B) decrease; increase
 - C) decrease; remain unchanged
 - D) remain unchanged; increase

3. If an increasing proportion of the adult population is retired, then the labor force participation rate:
 - A) will increase.
 - B) will decrease.
 - C) will remain constant.
 - D) may increase, decrease, or remain constant.

4. Assume that apples cost \$0.50 in 2002 and \$1 in 2009, whereas oranges cost \$1 in 2002 and \$1.50 in 2009. If 4 apples were produced in 2002 and 5 in 2009, whereas 3 oranges were produced in 2002 and 5 in 2009, then the GDP deflator in 2009, using a base year of 2002, was approximately:
 - A) 1.5.
 - B) 1.7.
 - C) 1.9.
 - D) 2.0.

5. If 7 million workers are unemployed, 143 million workers are employed, and the adult population equals 200 million, then the unemployment rate equals approximately _____ percent.
 - A) 3.5
 - B) 4.7
 - C) 4.9
 - D) 7

6. Real GDP means the value of goods and services is measured in _____ prices.
- A) current
 - B) actual
 - C) constant
 - D) average
7. Net national product equals GDP:
- A) plus net investment.
 - B) minus net investment.
 - C) plus depreciation.
 - D) minus depreciation.
8. A woman marries her butler. Before they were married, she paid him \$60,000 per year. He continues to wait on her as before (but as a husband rather than as a wage earner). She earns \$1,000,000 per year both before and after her marriage. The marriage:
- A) does not change GDP.
 - B) decreases GDP by \$60,000.
 - C) increases GDP by \$60,000.
 - D) increases GDP by more than \$60,000.
9. Nominal GDP is measured in _____ dollars _____ time.
- A) current; at a point in
 - B) current; per unit of
 - C) constant; at a point in
 - D) constant; per unit of
10. Prices of items included in the CPI are:
- A) averaged with the price of every item weighted equally.
 - B) weighted according to amount of the item produced in GDP.
 - C) weighted according to quantity of the item purchased by the typical household.
 - D) chained to the base year by the year-to-year growth rate of the item.
11. According to the definition used by the U.S. Bureau of Labor Statistics, a person is not in the labor force if that person:
- A) is going to school full time.
 - B) is temporarily absent from a job because of illness.
 - C) has been temporarily laid off.
 - D) is out of a job and looking for work during the previous four weeks.

12. Nominal GDP measures the value of goods and services in _____ prices, while real GDP measures the value of goods and services in _____ prices.
- A) foreign; domestic
 - B) domestic; foreign
 - C) current; constant
 - D) constant; current
13. In the national income accounts, goods bought for future use are classified as which type of expenditure?
- A) services
 - B) investment
 - C) government purchases
 - D) net exports
14. The GDP deflator is equal to:
- A) the ratio of nominal GDP to real GDP.
 - B) the ratio of real GDP to nominal GDP.
 - C) real GDP minus national GDP.
 - D) nominal GDP minus real GDP.
15. If total consumption (measured in billions of current dollars) equals \$3,657, consumption of durable goods is \$480, and consumption of nondurable goods is \$1,194, then consumption of services is:
- A) \$1,674.
 - B) \$2,463.
 - C) \$2,083.
 - D) \$1,983.
16. The employment statistics computed from the establishment survey do not include:
- A) workers with two jobs.
 - B) the self-employed.
 - C) workers on firms' payrolls.
 - D) part-time workers on firms' payrolls.
17. The largest component of national income is:
- A) corporate profits.
 - B) compensation of employees.
 - C) proprietors' income.
 - D) net interest.

18. Assume that a bakery hires more workers and pays them wages and that the workers produce more bread. GDP increases in *all* of the following cases *except* when the bread:
- A) is sold to households.
 - B) is stored away for later sale.
 - C) grows stale and is thrown away.
 - D) is sold to other firms.
19. GNP equals GDP _____ income earned domestically by foreigners _____ income that nationals earn abroad.
- A) plus; plus
 - B) minus; minus
 - C) minus; plus
 - D) plus; minus
20. In the national income accounts, the purchase of durables, nondurables, and services by households are classified as:
- A) consumption.
 - B) investment.
 - C) government purchases.
 - D) net exports.
21. A farmer grows wheat and sells it to a miller for \$1; the miller turns the wheat into flour and sells it to a baker for \$3; the baker uses the flour to make bread and sells the bread for \$6. The value added by the miller is:
- A) \$1.
 - B) \$2.
 - C) \$3.
 - D) \$6.
22. Since GDP includes only the additions to income, not transfers of assets, _____ are *not* included in the computation of GDP.
- A) final goods
 - B) used goods
 - C) consumption goods
 - D) goods produced for inventory
23. An increase in the price of goods bought by firms and the government will show up in:
- A) the CPI but not in the GDP deflator.
 - B) the GDP deflator but not in the CPI.
 - C) both the CPI and the GDP deflator.
 - D) neither the CPI nor the GDP deflator.

24. To compute the value of GDP:
- A) goods and services are valued at market prices.
 - B) the sale of used goods is included.
 - C) production for inventory is not included.
 - D) goods and services are valued by weight.
25. Assume that apples cost \$0.50 in 2002 and \$1 in 2009, whereas oranges cost \$1 in 2002 and \$0.50 in 2009. If 10 apples and 5 oranges were purchased in 2002, and 5 apples and 10 oranges were purchased in 2009, the CPI for 2009, using 2002 as the base year, is:
- A) 0.75.
 - B) 0.80.
 - C) 1.
 - D) 1.25.
26. The national income accounts identity, for an open economy, is:
- A) $Y = C + I + G - NX$.
 - B) $Y = C + I + G + NX$.
 - C) $Y = C + I + G$.
 - D) $Y = C + I - G$.
27. All of the following transactions that took place in 2009 would be included in GDP for 2009 *except* the purchase of a:
- A) book printed in 2009, entitled *The Year 3000*.
 - B) 2001 Jeep Cherokee.
 - C) year 2010 calendar printed in 2009.
 - D) ticket to see the movie *2001*.
28. Assume that the market basket of goods and services purchased in 2004 by the average family in the United States costs \$14,000 in 2004 prices, whereas the same basket costs \$21,000 in 2009 prices. However, the basket of goods and services actually purchased by the average family in 2009 costs \$20,000 in 2009 prices, whereas this same basket would have cost \$15,000 in 2004 prices. Given this data, a Laspeyres price index of 2009 prices using 2004 as the base year would be:
- A) 1.05.
 - B) approximately 1.07.
 - C) approximately 1.33.
 - D) 1.50.

29. In 2010, American net borrowings from abroad, per person, in current dollars, amounted to approximately:
- A) \$100.
 - B) \$220.
 - C) \$1,675.
 - D) \$10,000.
30. According to the usual seasonal pattern of the U.S. economy, GDP is highest in the quarter of the year that includes:
- A) January, February, and March.
 - B) April, May, and June.
 - C) July, August, and September.
 - D) October, November, and December.
31. In computing GDP,
- A) expenditures on used goods are included.
 - B) production added to inventories is excluded.
 - C) the amount of production in the underground economy is imputed.
 - D) the value of intermediate goods is included in the market price of the final goods.
32. A fixed-weight price index like the CPI _____ the change in the cost of living because it _____ take into account that people can substitute less expensive goods for ones that have become more expensive.
- A) underestimates; does not
 - B) overestimates; does
 - C) accurately estimates; does
 - D) overestimates; does not
33. In 2010, GDP per person in the United States was approximately:
- A) \$7,000.
 - B) \$27,000.
 - C) \$47,000.
 - D) \$74,000.
34. To avoid double counting in the computation of GDP, only the value of _____ goods are included.
- A) final
 - B) used
 - C) intermediate
 - D) investment

35. The total income of everyone in the economy is exactly equal to the total:
- A) expenditure on the economy's output of goods and services.
 - B) consumption expenditures of everyone in the economy.
 - C) expenditures of all businesses in the economy.
 - D) government expenditures.
36. When a firm sells a product out of inventory, GDP:
- A) increases.
 - B) decreases.
 - C) is not changed.
 - D) increases or decreases, depending on the year the product was produced.
37. If the GDP deflator in 2009 equals 1.25 and nominal GDP in 2009 equals \$15 trillion, what is the value of real GDP in 2009?
- A) \$12 trillion
 - B) \$12.5 trillion
 - C) \$15 trillion
 - D) \$18.75 trillion
38. An estimate of total employment in the economy can be obtained from:
- A) both the household and establishment surveys.
 - B) from the household survey, but not from the establishment survey.
 - C) from the establishment survey, but not from the household survey.
 - D) from neither the household nor the establishment surveys.
39. According to the definition used by the U.S. Bureau of Labor Statistics, people are considered to be unemployed if they:
- A) are out of a job, but not looking for work.
 - B) retired from the labor force before age 65.
 - C) do not have a job, but have looked for work in the past 4 weeks.
 - D) are absent from work because of bad weather or illness.
40. In 2010 in the United States, total government purchases per person (in current dollars) amounted to approximately:
- A) \$1,900.
 - B) \$9,700.
 - C) \$13,500.
 - D) \$25,600.

41. If GDP (measured in billions of current dollars) is \$5,465, consumption is \$3,657, investment is \$741, and government purchases are \$1,098, then net exports are:
- A) \$131.
 - B) -\$131.
 - C) \$31.
 - D) -\$31.
42. If nominal GDP grew by 5 percent and real GDP grew by 3 percent, then the GDP deflator grew by approximately _____ percent.
- A) 2
 - B) 3
 - C) 5
 - D) 8
43. In the national income accounts, government purchases are goods and services purchased by:
- A) the federal government.
 - B) the federal and state governments.
 - C) state and local governments.
 - D) federal, state, and local governments.
44. Assume that the market basket of goods and services purchased in 2004 by the average family in the United States costs \$14,000 in 2004 prices, whereas the same basket costs \$21,000 in 2009 prices. However, the basket of goods and services actually purchased by the average family in 2009 costs \$20,000 in 2009 prices, whereas this same basket would have cost \$15,000 in 2004 prices. Given these data, a Paasche index for 2009 using 2004 prices would be:
- A) 1.05.
 - B) approximately 1.07.
 - C) approximately 1.33.
 - D) 1.50.
45. The underground economy:
- A) is included in the latest GDP accounts.
 - B) includes only illegal activities.
 - C) includes domestic workers for whom Social Security tax is not collected.
 - D) excludes the illegal drug trade.

46. The CPI is a:
- A) Laspeyres price index.
 - B) Paasche price index.
 - C) Laspeyres quantity index.
 - D) Paasche quantity index.
47. A worker with two jobs is counted:
- A) once in both the household and the establishment surveys.
 - B) once in the household survey, but twice in the establishment survey.
 - C) once in the establishment survey, but twice in the household survey.
 - D) twice in both the household and the establishment surveys.
48. If the unemployment rate is 6 percent and the number of employed is 188 million, then the labor force equals _____ million.
- A) 11.28
 - B) 176.72
 - C) 188
 - D) 200
49. The best measure of the economic satisfaction of the members of a society is:
- A) nominal GDP.
 - B) real GDP.
 - C) the rate of inflation.
 - D) the value of corporate profits.
50. If nominal GDP in 2009 equals \$14 trillion and real GDP in 2009 equals \$11 trillion, what is the value of the GDP deflator?
- A) 0.79
 - B) 1.03
 - C) 1.27
 - D) 1.30
51. *All* of the following are a stock *except*:
- A) a consumer's wealth.
 - B) the government budget deficit.
 - C) the number of unemployed people.
 - D) the amount of capital in the economy.

52. The market value of all final goods and services produced within an economy in a given period of time is called:
- A) industrial production.
 - B) gross domestic product.
 - C) the GDP deflator.
 - D) general durable purchases.
53. The panel of economists appointed by the Senate Finance Committee estimated that the CPI _____ inflation by approximately _____ percentage point(s) per year.
- A) overestimates; 1
 - B) overestimates; 10
 - C) underestimates; 1
 - D) underestimates; 10
54. GDP is *all* of the following *except* the total:
- A) expenditure of everyone in the economy.
 - B) income of everyone in the economy.
 - C) expenditure on the economy's output of goods and services.
 - D) output of the economy.
55. An economy's _____ equals its _____.
- A) consumption; income
 - B) consumption; expenditure on goods and services
 - C) expenditure on goods; expenditures on services
 - D) income; expenditure on goods and services
56. The labor-force participation rate is the percentage of the:
- A) adult population that is employed.
 - B) adult population that is in the labor force.
 - C) labor force that is employed.
 - D) labor force that is unemployed.
57. As a percentage of GNP, depreciation (also called the consumption of fixed capital) amounts to approximately:
- A) 10 percent.
 - B) 25 percent.
 - C) 50 percent.
 - D) 0 percent.

58. In the circular flow model, the flow of dollars from firms to households is paid _____ and the flow of dollars from households to firms is paid _____.
- A) as wages and profits; for goods and services
 - B) for value added; as imputed values
 - C) in current dollars; in constant dollars
 - D) as interest and dividends; for depreciation and taxes
59. In the national income accounts, net exports equal:
- A) exported goods minus imported goods.
 - B) exported goods and services minus imported goods and services.
 - C) exported goods minus imported services.
 - D) exported goods and services plus imported goods and services.
60. A woman marries her butler. Before they were married, she paid him \$60,000 per year. He continues to wait on her as before (but as a husband rather than as a wage earner). She earns \$1,000,000 per year both before and after her marriage. If GDP were changed so that it truly measured the sum of all final economic activity, the marriage would:
- A) decrease GDP.
 - B) increase GDP.
 - C) leave GDP unchanged.
 - D) first decrease and then increase GDP.
61. If real GDP grew by 6 percent and population grew by 2 percent, then real GDP per person grew by approximately _____ percent.
- A) 2
 - B) 3
 - C) 4
 - D) 8
62. Two equivalent ways to view GDP are as the:
- A) total payments made to all workers in the economy or the total profits of all firms and businesses in the economy.
 - B) total expenditures on all goods produced in the economy or the total income earned from producing all services in the economy.
 - C) total profits of all firms and businesses in the economy or the total consumption of goods and services by all households in the economy.
 - D) total income of everyone in the economy or the total expenditure on the economy's output of goods and services.

63. The statistic used by economists to measure the value of economic output is:
- A) the CPI.
 - B) GDP.
 - C) the GDP deflator.
 - D) the unemployment rate.
64. If GDP (measured in billions of current dollars) is \$5,465 and the sum of consumption, investment, and government purchases is \$5,496, while exports equal \$673, imports are:
- A) \$673.
 - B) -\$673.
 - C) \$704.
 - D) -\$704.
65. Nominal GDP means the value of goods and services is measured in _____ prices.
- A) current
 - B) real
 - C) constant
 - D) average
66. Real GDP is measured in _____ dollars _____ time.
- A) current; at a point in
 - B) current; per unit of
 - C) constant; at a point in
 - D) constant; per unit of
67. All of the following are a flow *except*:
- A) the number of new automobile purchases.
 - B) the number of people losing their jobs.
 - C) business expenditures on plant and equipment.
 - D) the government debt.
68. An estimate of the number of unemployed workers in the economy can be obtained from:
- A) both the household and establishment surveys.
 - B) from the household survey, but not from the establishment survey.
 - C) from the establishment survey, but not from the household survey.
 - D) from neither the household nor the establishment surveys.

69. Assume that a firm buys all the parts that it puts into an automobile for \$10,000, pays its workers \$10,000 to fabricate the automobile, and sells the automobile for \$22,000. In this case, the value added by the automobile company is:
- A) \$10,000.
 - B) \$12,000.
 - C) \$20,000.
 - D) \$22,000.
70. National income differs from net national product by an amount called:
- A) depreciation.
 - B) indirect business taxes.
 - C) a statistical discrepancy.
 - D) net foreign factor income payments.
71. It is a national income accounting rule that all expenditure on purchases of products is necessarily equal to:
- A) profits of firms.
 - B) wages of employees.
 - C) income of the producers of the products.
 - D) income of employees.
72. The labor force equals the:
- A) adult population.
 - B) number of employed individuals.
 - C) number of unemployed individuals.
 - D) number of employed and unemployed individuals.
73. An example of an imputed value in the GDP is the:
- A) value-added of meals cooked at home.
 - B) housing services enjoyed by homeowners.
 - C) services of automobiles to their owners.
 - D) value of illegal drugs sold.
74. Disposable personal income:
- A) is computed by subtracting personal tax and nontax payments from personal income.
 - B) is generally greater than personal income.
 - C) includes corporate profits but not dividends.
 - D) does not include government transfers to individuals.

75. If GDP (measured in billions of current dollars) is \$5,465, consumption is \$3,657, investment is \$741, and net exports are $-\$1,910$, then government purchases are:
- A) \$2,977.
 - B) \$1,910.
 - C) $-\$843$.
 - D) \$1,067.
76. Unlike the GDP deflator, the CPI includes the prices of:
- A) goods purchased by firms.
 - B) goods purchased by governments.
 - C) exported goods.
 - D) imported goods.
77. The economic statistic used to measure the level of prices is:
- A) GDP.
 - B) CPI.
 - C) GNP.
 - D) real GDP.
78. When prices of different goods are increasing by different amounts, the price index that will rise the fastest is:
- A) Fisher's ideal index.
 - B) the CPI.
 - C) the GDP deflator.
 - D) a Paasche index.
79. Chain-weighted measures of real GDP make use of prices from:
- A) an unchanging base year.
 - B) a continuously changing base year.
 - C) a base year that is changed approximately every 5 years.
 - D) a base year that is changed approximately every 10 years.
80. GDP is the market value of all _____ goods and services produced within an economy in a given period of time.
- A) used
 - B) intermediate
 - C) consumer
 - D) final

81. The new chain-weighted measures of real GDP are an improvement over traditional measures because the prices used to compute real GDP are:
- A) never far out of date.
 - B) always from the same base year.
 - C) imputed.
 - D) chained to the CPI.
82. The investment component of GDP includes *all* of the following *except*:
- A) purchases of corporate stock.
 - B) spending on new plants and equipment.
 - C) purchases of new housing by households.
 - D) changes in business inventories.
83. An increase in the price of imported goods will show up in:
- A) the CPI but not in the GDP deflator.
 - B) the GDP deflator but not in the CPI.
 - C) both the CPI and the GDP deflator.
 - D) neither the CPI nor the GDP deflator.
84. The value added of an item produced refers to:
- A) a firm's profits on the item sold.
 - B) the value of the labor inputs in the production of an item.
 - C) the value of a firm's output less the value of its costs.
 - D) the value of a firm's output less the value of the intermediate goods that the firm purchases.
85. In principle, the GDP accounts should—but do not—have an imputation for:
- A) housing services enjoyed by homeowners.
 - B) rental services of automobiles driven by owners.
 - C) meals cooked in restaurants.
 - D) housing services enjoyed by renters.
86. Assume that a tire company sells 4 tires to an automobile company for \$400, another company sells a compact disc player for \$500, and the automobile company puts all of these items in or on a car that it sells for \$20,000. In this case, the amount from these transactions that should be counted in GDP is:
- A) \$20,000.
 - B) \$20,000 less the automobile company's profit on the car.
 - C) \$20,900.
 - D) \$20,900 less the profits of all three companies on the items that they sold.

87. The GDP deflator is a:
- A) Laspeyres price index.
 - B) Paasche price index.
 - C) Laspeyres quantity index.
 - D) Paasche quantity index.
88. Assume that apples cost \$0.50 in 2002 and \$1 in 2009, whereas oranges cost \$1 in 2002 and \$1.50 in 2009. If 4 apples were produced in 2002 and 5 in 2009, whereas 3 oranges were produced in 2002 and 4 in 2009, then real GDP (in 2002 prices) in 2009 was:
- A) \$5.
 - B) \$6.50.
 - C) \$9.50.
 - D) \$11.
89. Assume that a rancher sells McDonald's a quarter-pound of meat for \$1 and that McDonald's sells you a hamburger made from that meat for \$2. In this case, the value included in GDP should be:
- A) \$0.50.
 - B) \$1.
 - C) \$2.
 - D) \$3.
90. The core inflation rate:
- A) measures the change in producer prices.
 - B) is measured using a Paasche index.
 - C) excludes food and energy prices.
 - D) includes the price of exports and includes the price of imports.
91. Which of the following is a stock variable?
- A) wealth
 - B) consumption
 - C) investment
 - D) income
92. If the adult population equals 250 million, of which 145 million are employed and 5 million are unemployed, the labor force participation rate equals _____ percent.
- A) 50
 - B) 58
 - C) 60
 - D) 67

93. In 2010, the GDP of the United States totaled about:
- A) \$14.5 billion.
 - B) \$145 billion.
 - C) \$14.5 trillion.
 - D) \$145 trillion.
94. *All* of the following are measures of GDP *except* the total:
- A) expenditures of all businesses in the economy.
 - B) income from all production in the economy.
 - C) expenditures on all final goods and services produced.
 - D) value of all final production.
95. The CPI is determined by computing:
- A) an average of prices of all goods and services.
 - B) the price of a basket of goods and services that changes every year, relative to the same basket in a base year.
 - C) the price of a fixed basket of goods and services, relative to the price of the same basket in a base year.
 - D) nominal GDP relative to real GDP.
96. *All* of the following actions are investments in the sense of the term used by macroeconomists *except*:
- A) IBM's building a new factory.
 - B) corner candy store's buying a new computer.
 - C) John Smith's buying a newly constructed home.
 - D) Sandra Santiago's buying 100 shares of IBM stock.
97. If the number employed increases while the number unemployed does not change, the unemployment rate:
- A) will increase.
 - B) will decrease.
 - C) will not change.
 - D) may either increase or decrease.
98. If total investment (measured in billions of current dollars) equals \$741, business fixed investment is \$524, and residential fixed investment is \$222, then inventory investment is:
- A) \$5.
 - B) -\$5.
 - C) \$15.
 - D) -\$15.

99. The amount of capital in an economy is a _____ and the amount of investment is a _____.
- A) flow; stock
 - B) stock; flow
 - C) final good; intermediate good
 - D) intermediate good; final good
100. The number of households interviewed in the monthly employment survey of the U.S. Bureau of Labor Statistics is approximately:
- A) 6,000.
 - B) 60,000.
 - C) 600,000.
 - D) 6 million.

Answer Key

1. B
2. B
3. B
4. B
5. B
6. C
7. D
8. B
9. B
10. C
11. A
12. C
13. B
14. A
15. D
16. B
17. B
18. C
19. C
20. A
21. B
22. B
23. B
24. A
25. D
26. B
27. B
28. D
29. C
30. D
31. D
32. D
33. C
34. A
35. A
36. C
37. A
38. A
39. C
40. B
41. D
42. A
43. D
44. B

45. C
46. A
47. B
48. D
49. B
50. C
51. B
52. B
53. A
54. A
55. D
56. B
57. A
58. A
59. B
60. C
61. C
62. D
63. B
64. C
65. A
66. D
67. D
68. B
69. B
70. C
71. C
72. D
73. B
74. A
75. A
76. D
77. B
78. B
79. B
80. D
81. A
82. A
83. A
84. D
85. B
86. A
87. B
88. B
89. C
90. C

- 91. A
- 92. C
- 93. C
- 94. A
- 95. C
- 96. D
- 97. B
- 98. B
- 99. B
- 100. B