Chapter 6 Measuring National Output and National Income
Principles of Macroeconomics, Case/Fair, 8e

6.1 Gross Domestic Product
Multiple Choice

The total market value of all final goods and services produced within a given period by factors of production located within a country is
A . gross domestic product.
B . gross national product.
C . net national product.
D . net national income.
Answer : A

Gross domestic product measures
A . the total spending of everyone in the economy.
B . the value of all output in the economy.
C . the total income of everyone in the economy.
D . All of the above
Answer : D

Which of the following is an example of a final good or service?
A . Wheat a bakery purchases to make bread.
B . Coffee beans Starbucks purchases to make coffee.
C . Lumber purchased by a construction company to used in building houses.
D . A tractor purchased by a farmer to cultivate his farm.
Answer : D

Which of the following is a good or service counted in GDP?
A . Tires Ford buys to put on a car.
B . A used tire you buy for your personal car.
C . A new tire you buy for your personal car.
D . All of the above
Answer : C

Which of the following is an example of an intermediate good?
A . The dough you buy to fix yourself a pizza for dinner.
B . The chocolate you buy to make yourself some cookies.
C . The pizza sauce you purchase to make pizzas to sell for a fund-raiser for an organization you belong to.
D . None of the above
Answer : C

Double counting can be avoided by
A . including the value of intermediate goods in the current year.
B . not counting the value of intermediate goods in GDP.
C . including the value of intermediate goods in the GNP but not in the GDP.
D . including the value of intermediate goods in the production year but not in the selling year of those goods.
Answer : B

Which of the following would NOT be counted in 2003's GDP?
A . The value of a 2001 car you purchase from a car dealer in 2003.
B . The 2003 salary of a used car salesperson.
C . The commissions earned by a real estate agent in selling houses built prior to 2003.
D . The value of a computer manufactured in 2003 but not sold in 2003.
Answer : A

Which of the following would be counted in 2003's GDP?
A . The value of a loan you take in 2003.
B . The value of a TV that was produced in 2002 but not sold until 2003.
C . The bonus check a stockbroker gets from his/her company in 2003.
D . The value of a bond sold by the federal government.
Answer : C

Which of the following is NOT included in 2004's GDP?
A . The value of a car produced in the United States and exported to England.
B . The profit earned in 2004 from selling a stock that you purchased in 2001.
C . The value of a computer chip that is used in the production of a personal computer.
D . The commission earned by an employment counselor when she locates a job for a client.
Answer : B

Gross national product is the total market value of
A . all final and intermediate goods and service produced by resources owned by a country in a given year.
B . all final and intermediate goods and services produced in a country, regardless of who owns the resources.
C . all final goods and services produced in a country in a given year, regardless of who owns the resources.
D . all final goods and services produced by resources owned by a country, regardless of where production takes place.
Answer : D

If no foreign companies produce in a country, but many of the country's companies produce abroad, then it is safe to say that
A . the country's GNP exceeds its GDP.
B . the country's GDP exceeds its GNP.
C . the country's GNP and GDP are equal.
D . the country's GDP equals its domestic income.
Answer : A

Which of the following is included in both the U.S. GDP and GNP?
A . The value of all cars produced by Ford in Mexico.
B . The value of all cars produced by General Motors in the US
C . The value of all cars produced by Toyota in the US
D . The value of cars produced by Nissan in Japan and the US
Answer : B

Which of the following is NOT counted in the GNP of the United States?
A . The wage of a U.S. citizen who works in a foreign country for a foreign firm.
B . The interest earned by a U.S. bank on loans to a business firm located in Brazil.
C . The profit earned by a restaurant located in the United States but owned by a Mexican company.
D . The value of services that are produced by state and local governments in the United States.
Answer : C

The value of what Pizza Hut produces in Italy is included in the U.S. ________ and in the Italian ________.

A . GDP; GDP
B . GNP; GNP
C . GNP; GDP
D . GDP; GNP

Answer : C

Profits earned in the United States by foreign-owned companies are included in the US

A . GDP but not GNP.
B . neither GDP nor GNP.
C . GNP but not GDP.
D . both GDP and GNP.

Answer : A

The GDP of the U.S. in 2002 was around $10 trillion. This means

A . that the value of output in 2002 was around $10 trillion.
B . that total income in 2002 was around $10 trillion.
C . that total spending in 2002 was around $10 trillion.
D . All of the above

Answer : D

The GDP includes

A . the value of all intermediate goods and services.
B . the value of all final goods and services.
C . the value of all transactions.
D . All of the above

Answer : B

Income Mexican citizens earn in the U.S. counts in

A . U.S. GNP.
B . Mexican GNP.
C . Mexican GDP.
D . All of the above

Answer : B

True/False

1) GDP measures the total income of everyone and the total spending by everyone in the economy.

Answer: ✓ True False

Diff: 1

Skill: C

2) Total income in the economy can sometimes be greater than total spending.

Answer: True ✓ False

Diff: 2

Skill: C

3) The income of U.S. citizens working abroad counts in U.S. GDP.

Answer: True ✓ False

Diff: 2

Skill: C

4) Stock market transactions are part of GNP.

Answer: True ✓ False

Diff: 2

Skill: D

5) Value added is the difference between the value of good as they leave a stage of production and cost of the goods as they entered that stage of production.

Answer: ✓ True False

Diff: 2

Skill: D

6.2 Calculating GDP
Multiple Choice

The equation for GDP using the expenditure approach is

A . GDP = $C + I + G + EX - IM$.

B . GDP = $C + I + G + (IM - EX)$.

C . GDP = $C + I + G + EX + IM$.

D . GDP = $C + I + G - EX - IM$.

Answer : A

The single largest expenditure component in GDP is

A . government spending.

B . investment.

C . consumption.

D . net exports.

Answer : C

Refer to the information provided in Table 6.1 below to answer the questions that follow.

Table 6.1

	$Billions
Durable goods	400
Nonresident investment	300
Federal purchase of goods	300
Exports	500
State and local purchases of goods	250
Residential investment	50
Services	650
Imports	150
Change in business inventories	-25
Nondurable goods	600

Refer to Table 6.1. Personal consumption expenditures in billions of dollars are
A . 1650.
B . 1150.
C . 1300.
D . 1550.
Answer : A

Refer to Table 6.1. The value for gross private domestic investment in billions of dollars is
A . 325.
B . 350.
C . 335.
D . 275.
Answer : A

Refer to Table 6.1. The value for net exports in billions of dollars is
A . -150.
B . 400.
C . -300.
D . 350.
Answer : D

Refer to Table 6.1. The value of gross domestic product in billions of dollars is
A . 1855.
B . 2785.
C . 2875.
D . 2355.
Answer : C

Refer to Table 6.1. The value of government spending in billions of dollars is
A . 300
B . 250.
C . 550.
D . 50.
Answer : C

Refer to the information provided in Table 6.2 below to answer the questions that follow.

Table 6.2

	$Billions
Federal purchases of goods	1,000
Services	600
Imports	250
Change in business inventories	40
Durable goods	250
Nondurable goods	650
Exports	150
Residential investment	150
State and local purchases	350
Nonresidential investment	750

Refer to Table 6.2. Personal consumption expenditures in billions of dollars are
A . 1500.
B . 1150.
C . 1550.
D . 1050.
Answer : A

Refer to Table 6.2. The value for gross private domestic investment in billions of dollars is
A . 940.
B . 910.
C . 900.
D . 640.
Answer : A

Refer to Table 6.2. The value for net exports in billions of dollars is
A . -100.
B . 400.
C . 100.
D . -50.
Answer : A

Refer to Table 6.2. The value for gross domestic product in billions of dollars is
A . 2340.
B . 3690.
C . 3760.
D . 3340.
Answer : B

Refer to Table 6.2. The value of government spending in billions of dollars is
A . 1000.
B . 1350.
C . 650.
D . 350.
Answer : B
Diff: 2
Skill: A

A company produced 8 dishwasher machines in 2005. The company sold 6 in 2005 and added 2 to its inventories. The market value of the dishwasher machines in 2005 was $200 per unit. What is the value of this company's output that will be included in the 2005 GDP?

A . $1,600.
B . $400.
C . $2,000.
D . $1,400.

Answer : A

A farmer buys a new tractor from John Deere to use on her cotton farm. This tractor is included in GDP as

A . part of gross private domestic investment.
B . a durable consumption good.
C . a service.
D . a nondurable consumption good.

Answer : A

The change in business inventories is measured as

A . final sales minus GDP.
B . final sales plus GDP.
C . GDP minus final sales.
D . the ratio of final sales to GDP.

Answer : C

In 2004 final sales equal $100 billion, and the change in business inventories is $20 billion. GDP in 2004

A . is $120 billion.
B . is $110 billion.
C . is $80 billion.
D . cannot be determined from this information.

Answer : A

In 2004 final sales equal $350 billion and the change in business inventories is -$60 billion. GDP in 2004

A . is $290 billion.
B . is $410 billion.
C . is $295 billion.
D . cannot be determined from this information.

Answer : A

In 2004 the change in business inventories is -$50 billion and GDP is $160 billion. Final sales in 2004

A . are $110 billion.
B . are $200 billion.
C . are $210 billion.
D . cannot be determined from this information.

Answer : C

In 2003, GDP was exactly equal to final sales. This implies that

A . there was accumulation of inventories that year.
B . there was a decline in inventories that year.
C . there was no change in inventories that year.
D . GDP did not grow that year compared to the year before.

Answer : C

If the change in business inventories is zero, then final sales are

A . zero.
B . less than GDP.
C . greater than GDP.
D . equal to GDP.

Answer : D

If in a year there is a positive inventory investment, then final sales

A . exceed GDP.
B . are less than GDP.
C . equal GDP.
D . are zero.

Answer : B

Net investment equals

A . GDP minus final sales.
B . gross investment minus final sales.
C . gross investment minus depreciation.
D . depreciation plus GDP.

Answer : C

If net investment is zero, then

A . gross investment is greater than depreciation.
B . gross investment is less than depreciation.
C . gross investment equals depreciation.
D . depreciation is zero.

Answer : C

Suppose that net investment in 2005 was $50 billion and depreciation was $18 billion. Gross investment in 2003 was

A . $32 billion.
B . -$32 billion.
C . $65 billion.
D . 68 billion.

Answer : D

The total value of all capital goods newly produced in a given period is

A . the change in business inventories.
B . depreciation.
C . net investment.
D . gross investment.

Answer : D

The change in capital stock in a period is equal to

A . the ratio of the amount of the capital at the beginning of the period to the amount of depreciation.
B . the amount of the capital stock at the beginning of the period plus gross investment minus depreciation.
C . the amount of the capital at the beginning of the period plus gross investment.
D . the amount of the capital at the beginning of the period minus net investment.

Answer : B

Net investment is

A . gross investment minus depreciation.
B . gross investment plus depreciation.
C . depreciation minus gross investment.
D . GNP minus final sales.

Answer : A

Depreciation is

A . the decrease in the overall price level.
B . the additional capital stock in a year.
C . the amount of used up machinery in a year.
D . the amount of decline in business inventories.

Answer : C

If net investment in 2004 is $350 billion and gross investment in 2004 is $500 billion, depreciation in 2004 is

A . $.7 billion.
B . $175 billion.
C . $150 billion.
D . $250 billion.

Answer : C

If net investment in 2004 is $300 billion and gross investment in 2004 is $500 billion, depreciation in 2004 is

A . $.6 billion.
B . $175 billion.
C . $200 billion.
D . $500 billion.

Answer : C

If gross investment in 2004 is $500 billion and depreciation in 2004 is $550 billion, net investment in 2004 is

A . -$50 billion.
B . -$100 billion.
C . -$1050 billion.
D . None of the above

Answer : A

If gross investment in 2004 is $200 billion and depreciation in 2004 is $1000 billion, net investment in 2004 is

A . -$800 billion.
B . $1000 billion.
C . -$900 billion.
D . None of the above

Answer : A

Exports equal

A . imports - net exports.
B . net exports + imports.
C . net exports - imports.
D . imports + (exports + imports).

Answer : B

When calculating GDP, exports are ________ and imports are ________.

A . added; added
B . added; subtracted
C . subtracted; added
D . subtracted; subtracted

Answer : B

If the value of net exports is negative, then

A . exports exceed imports.
B . imports exceed exports.
C . exports equal imports.
D . imports are zero.

Answer : B

The largest income component of GDP is
A . proprietors' income.
B . rental income.
C . compensation of employees.
D . corporate profit.
Answer : C

What should be subtracted from GDP to calculate national income?
A . Depreciation
B . Indirect taxes
C . Personal income taxes.
D . Net factor payments to the rest of the world
Answer : A

Proprietors' income is
A . the income of unincorporated businesses.
B . the income of all businesses incorporated and unincorporated.
C . the income of sole proprietorships.
D . the income of partnerships.
Answer : A

Net interest is the interest on loans paid by
A . businesses, households, and the government.
B . businesses and households.
C . businesses and the government.
D . businesses.
Answer : D

Interest paid by households and by the government is
A . counted in national income, but not in GDP.
B . not counted in GDP because it is not assumed to flow from the production of goods and services.
C . not counted in GDP but is counted in GNP because it is paid by U.S. citizens to people living in the United States.
D . included in both GDP and GNP because it represents an expenditure by one group and a receipt of income by another group.
Answer : B

What type of tax affects the amount of money you pay for a product?
A . Direct tax
B . Income tax
C . Indirect tax
D . All of the above
Answer : C

Depreciation is
A . subtracted from national income to get GDP.
B . added to national income to get GDP.
C . subtracted from GNP to get NNP.
D . added to GNP to get NNP.
Answer : C

Refer to the information provided in Table 6.3 below to answer the questions that follow.

Table 6.3

	$Billions
Compensation of employees	475
Proprietors' income	60
Corporate profit	40
Net interest	25
Rental income	10
Deprecation	70
Indirect taxes	40
Direct taxes	80
Subsidies	15
Payments of factor income to the rest of the world	20
Receipts of factor income from the rest of the world	15

Refer to Table 6.3. The value for national income in billions of dollars is
A . 600.
B . 635.
C . 585.
D . 850.
Answer : B

Refer to Table 6.3. The value for gross domestic product in billions of dollars is
A . 685.
B . 485.
C . 710.
D . 680.
Answer : C

Refer to Table 6.3. The value of net factor payments to the rest of the world is
A . 35.
B . 5.
C . 15.
D . 25.
Answer : B

Refer to Table 6.3. The value of disposable income is
A . 505.
B . 560.
C . 605.
D . Cannot be calculated given the information in Table 6.3.
Answer : D

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If receipts of factor income from the rest of the world exceed
payments of factor income to the rest of the world, then
  A . GDP is greater than GNP.
  B . GDP equals GNP.
  C . GNP equals NNP.
  D . GNP is greater than GDP.
Answer : D
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True/False

1) Transfer payments are subtracted from national income to get to personal income.

Answer: True ✓ False

Diff: 1

Skill: F

2) If investment is larger than depreciation, the capital stock decreases.

Answer: True ✓ False

Diff: 1

Skill: A

3) Depreciation is included in GDP, but excluded from NNP.

Answer: ✓ True False

Diff: 2

Skill: F

4) Final sales plus changes in inventories equals GDP.

Answer: ✓ True False

Diff: 2

Skill: D

5) New houses count as consumer durables.

Answer: True False

Diff: 2

Skill: C

6.3 From GDP to Disposable Personal Income
Multiple Choice

Refer to the information provided in Table 6.6 below to answer the questions that follow.

Table 6.6

	$Billions
Depreciation	30
Receipts of factor income from the rest of the world	20
Government purchases	90
Imports	40
Payments of factor income to the rest of the world	40
Net private domestic investment	150
Personal taxes	90
personal consumption expenditures	500
Dividends	10
Exports	60
Amount of national income not going to households	30

Refer to Table 6.6. The value for GDP in billions of dollars is

A . 735.
B . 725.
C . 790.
D . 760.

Answer : C

Refer to Table 6.6. The value for GNP in billions of dollars is

A . 790.
B . 735.
C . 725.
D . 770.

Answer : D

Refer to Table 6.6. The value for NNP in billions of dollars is

A . 740.
B . 725.
C . 700.
D . 650.

Answer : A

Refer to Table 6.6. The value for national income in billions of dollars is
A . 740.
B . 735.
C . 700.
D . 650.
Answer : A

Refer to Table 6.6. The value for personal income in billions of dollars is
A . 740.
B . 735.
C . 710.
D . 685.
Answer : C

Refer to Table 6.6. The value for disposable personal income in billions of dollars is
A . 740.
B . 650.
C . 710.
D . 620.
Answer : D

If GNP is $400 billion, receipts of factor income from the rest of the world are $20 billion, and payments of factor income to the rest of the world are $10 billion, then GDP is
A . $385 billion.
B . $390 billion.
C . $430 billion.
D . $370 billion.
Answer : B

If GNP is $200 billion, receipts of factor income from the rest of the world are $10 billion, and payments of factor income to the rest of the world are $30 billion, then GDP is
A . $220 billion.
B . $160 billion.
C . $240 billion.
D . $210 billion.
Answer : A

If GDP is $500 billion and depreciation is $40 billion, then net national product

A . is $540 billion.
B . is $460 billion.
C . is $500 billion.
D . cannot be determined from this information.

Answer : D

If GDP is $200 billion, depreciation is $30 billion, and net factor income from the rest of the world is -$10 billion, then net national product

A . is $160 billion.
B . is $170 billion.
C . is $220 billion.
D . cannot be determined from this information.

Answer : A

If GNP is $500 billion and depreciation is $60 billion, then net national product

A . is $560 billion.
B . is $440 billion.
C . is $450 billion.
D . cannot be determined from this information.

Answer : B

If GNP is $750 billion and depreciation is $100 billion, then net national product

A . is $850 billion.
B . is $550 billion.
C . is $650 billion.
D . cannot be determined from this information.

Answer : C

If depreciation equals zero and retained earnings equal $5 billion, then

A . GNP is less than net national product by $5 billion.
B . GNP equals net national product.
C . Net national product is less than GNP by $5 billion.
D . GNP is greater than GDP by $5 billion.

Answer : B

Net national product is
A . GDP plus depreciation.
B . GDP minus depreciation.
C . GNP minus depreciation.
D . GNP plus depreciation.
Answer : C

The total income of households is
A . net national product.
B . personal income.
C . national income.
D . production income.
Answer : B

Personal income is national income minus
A . depreciation.
B . net factor income to the rest of the world..
C . the amount of national income not going to households.
D . imports.
Answer : C

If National income is $450 billion, personal income is $550 billion, personal taxes are $80 billion, then disposable income equals
A . $370 billion.
B . $480 billion.
C . $470 billion.
D . $630 billion.
Answer : C

Which of the following is subtracted from national income to get to personal income?
A . Retained earnings
B . Personal interest income.
C . Depreciation.
D . Personal Taxes.
Answer : A

Personal income
A . is always less than national income.
B . is always greater than national income.
C . may be greater than or less than national income.
D . will always equal national income.
Answer : C

If personal income is $550 billion and personal income taxes are $90 billion, the value of disposable personal income
A . is $640 billion.
B . is $460 billion.
C . is $470 billion.
D . cannot be determined from this information.
Answer : B

If personal saving is -$10 billion and disposable personal income is $370 billion, then personal consumption spending :
A . Cannot be determined from this information.
B . is $390 billion.
C . is $380 billion.
D . is $360 billion.
Answer : C

The personal saving rate is
A . the difference between total personal spending and personal saving.
B . the difference between personal income and disposable personal income.
C . the ratio of personal income to personal saving.
D . the percentage of disposable personal income that is saved.
Answer : D

If disposable personal income is $200 billion and personal saving is $4 billion, the personal saving rate is
A . 1%.
B . 2.5%.
C . 10%.
D . 2%.
Answer : D

If the personal saving rate is 5% and personal saving is $10 billion, the value of personal disposable income
A . is $100 billion.
B . is $500 billion.
C . is $200 billion.
D . cannot be determined from this information.
Answer . C

Saving rates tend to ________ during boom times and ________ during recession periods.
A . rise; rise
B . rise; fall
C . fall; rise
D . fall; fall
Answer : C

True/False

1) A U.S. fast-food chain opens a branch in Spain. The sales of the restaurant enter the U.S. GDP and the Spanish GNP.
Answer: True ✓ False
Diff: 2
Skill: A

2) If real GDP increased during a year, then output must have increased.
Answer: ✓ True False
Diff: 2
Skill: A

3) Consumers can spend their entire personal income.
Answer: True ✓ False
Diff: 2
Skill: A

4) The difference between GNP and GDP is depreciation.
Answer: True ✓ False
Diff: 2
Skill: D

5) Disposable personal income is personal income minus personal taxes.
Answer: ✓ True False
Diff: 2
Skill: D

6.4 Nominal Versus Real GDP
Multiple Choice

Nominal GDP measures the value of all goods and services
A . in constant dollars.
B . in current dollars.
C . in fixed dollars.
D . without inflation.
Answer : B

Gross domestic product measured in terms of the prices of a fixed, or base, year is
A . current GDP.
B . base GDP.
C . real GDP.
D . nominal GDP.
Answer : C

Nominal GDP is gross domestic product measured
A . in the prices of a base year.
B . in current dollars.
C . at a constant output level but at the base-year prices.
D . as the difference between the current year's GDP and last year's GDP.
Answer : B

Real GDP is gross domestic product measured
A . at a constant output level but at current prices.
B . in current dollars.
C . in the prices of a base year.
D . as the difference between the current year's GDP and last year's GDP.
Answer : C

If real GDP in 2003 using 2002 prices is lower than nominal GDP of 2003, then
A . prices in 2003 are lower than prices in 2002.
B . nominal GDP in 2003 equals nominal GDP in 2002.
C . prices in 2003 are higher than prices in the base year.
D . real GDP in 2003 is larger than real GDP in 2002.
Answer : C

If real GDP in 2004 using 2003 prices is higher than nominal GDP of 2004, then

A . prices in 2004 are lower than prices in the base year.
B . nominal GDP in 2004 equals nominal GDP in 2003.
C . prices in 2004 are higher than prices in the base year.
D . real GDP in 2004 is larger than real GDP in 2003.

Answer : A

Refer to the information provided in Table 6.8 below to answer the questions that follow.

Table 6.8

	Production			Prices		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Good X	50	75	100	$1.00	$1.00	$1.20
Good Y	100	100	130	$0.60	$0.75	$1.00

Refer to Table 6.8. Assume that this economy produces only two goods Good *X* and Good *Y*. The value for this economy's nominal GDP in year 1

A . is $110.
B . is $120.
C . is $160
D . cannot be determined from this information.

Answer : A

Refer to Table 6.8. Assume that this economy produces only two goods Good *X* and Good *Y*. The value for this economy's nominal GDP in year 3

A . is $240.
B . is $250.
C . is $260.
D . cannot be determined from this information.

Answer : B

Refer to Table 6.8. Assume that this economy produces only two goods Good *X* and Good *Y*. The value for this economy's nominal GDP in year 2 is

A . $155.
B . $150.
C . $180.
D . None of the above

Answer : B

Refer to Table 6.8. Assume that this economy produces only two goods Good *X* and Good *Y*. If year 1 is the base year, the value for this economy's real GDP in year 2 is

A . $135.
B . $140.
C . $180.
D . None of the above

Answer : A

Refer to Table 6.8. Assume that this economy produces only two goods Good *X* and Good *Y*. If year 1 is the base year, the value for this economy's GDP deflator in year 1 is

A . 1.
B . 100.
C . 110.
D . None of the above

Answer : B

Refer to Table 6.8. Assume that this economy produces only two goods Good *X* and Good *Y*. If year 1 is the base year, the value for this economy's GDP deflator in year 2 is

A . 100.
B . 88.9.
C . 111.
D . 112.5.

Answer : C

Refer to Table 6.8. Assume that this economy produces only two goods Good *X* and Good *Y*. If year 1 is the base year, the value for this economy's inflation rate between year 1 and year 2 is

A . -11.1%.
B . 11.1%.
C . 12..5%.
D . 100%.

Answer : B

The GDP deflator is the

A . difference between real GDP and nominal GDP multiplied by 100.
B . difference between nominal GDP and real GDP multiplied by 100.
C . ratio of nominal GDP to real GDP multiplied by 100.
D . ratio of real GDP to nominal GDP multiplied by 100.

Answer : C

If nominal GDP is $6 trillion and real GDP is $4 trillion, the GDP deflator is

A . 66.7.
B . 150.
C . 125.
D . 24.

Answer : B

If the GDP deflator is greater than 100, then

A . nominal GDP is greater than real GDP.
B . nominal GDP is lower than real GDP.
C . nominal GDP equals real GDP.
D . prices decreased by more than double between the current and the base years.

Answer : A

The GDP deflator in year 2 is 110 and the GDP deflator in year 3 is 118. The rate of inflation between years 2 and 3 is

A . 8%.
B . 18%.
C . 4.55%.
D . 7.27%.

Answer : D

The GDP deflator in year 2 is 105 using year 1 as a base year. This means that, on average, the cost of goods and services is

A . 105% higher in year 2 than in year 1.
B . 5% higher in year 2 than in year 1.
C . 5% higher in year 1 than in year 2.
D . 105% higher in year 1 than in year 2.

Answer : B

The GDP deflator in year 2 is 95 using year 1 as a base year. This means that, on average, the cost of goods and services is

A . 105% higher in year 2 than in year 1.
B . 5% higher in year 2 than in year 1.
C . 5% higher in year 1 than in year 2.
D . 105% higher in year 1 than in year 2.

Answer : C

True/False

1) If in the same period output doubles and the price level remains the same, nominal GDP doubles.

Answer: ✓ True False
Diff: 2
Skill: A

2) A GDP deflator is real GDP divided by nominal GDP times 100.

Answer: True ✓ False
Diff: 2
Skill: D

3) If the GDP deflator next year is less than the GDP deflator this year, then the price level has fallen.

Answer: ✓ True False
Diff: 2
Skill: A

4) GDP measured in base year prices is real GDP.

Answer: ✓ True False
Diff: 2
Skill: D

5) If nominal GDP rises, then so must real GDP.

Answer: True ✓ False
Diff: 2
Skill: C

6) If real GDP rises, then so must nominal GDP.

Answer: True ✓ False
Diff: 2
Skill: C

6.5 Limitations of the GDP Concept
Multiple Choice

GDP is not a perfect measure of social welfare and the society's economic well-being because

A . it does not say anything about the distribution of income.
B . GDP accounting rules do not adjust for production that causes negative externalities.
C . it does not include all economic activities in the economy.
D . All of the above

Answer : D

Legalizing all forms of illegal activities would
A . reduce measured GDP.
B . reduce the size of the underground economy and increase measured GDP.
C . reduce both the underground economy and measured GDP.
D . increase the size of the underground economy and reduce measured GDP.
Answer : B

Per capita gross national income (GNI) decreases when
A . GNI and the population increase at the same rate.
B . GNI does not change and the population increases.
C . GNI and the population decrease at the same rate.
D . GNI increases and the population does not change.
Answer : B

Which of these countries had the highest GNI per capita as of 2004?
A . The United States
B . France
C . Italy
D . Switzerland
Answer : D

Gross national income is
A . GNP converted into dollars using an average exchange rate over several years adjusted for rates of inflation.
B . GDP converted into dollars using an average exchange rate over several years adjusted for rates of inflation.
C . GNP measured using an incomes approach.
D . GNP divided by population.
Answer : A

The base year of an index is
A . the year chosen for the weights in a fixed weight procedure.
B . the year currently being calculated.
C . the last year of the index.
D . the first year of the index.
Answer : A

A problem with fixed weight indexes is
A . they do not account for responses to supply shifts.
B . they do not account for response to demand shifts.
C . the farther in time from the base year the more inaccurate they generally become.
D . All of the above
Answer : D

True/False

1) All economic activities in the economy are included in the GDP.
Answer: True ✔ False
Diff: 1
Skill: A

2) The costs of pollution are subtracted from the value of final sales before calculating GDP.
Answer: True ✔ False
Diff: 1
Skill: D

3) A weakness in the concept of GDP is that it ignores income distribution.
Answer: ✔ True False
Diff: 1
Skill: A

4) Production in the illegal or underground economy is not reflected in GDP.
Answer: ✔ True False
Diff: 1
Skill: F

5) Fixed weight indexes can not account for new goods.
Answer: ✔ True False
Diff: 1
Skill: A