IMAGE COMING SOON

MULTIPLE CHOICE

1. Who created the original National Income and Product Accounts in the 1930s?
   a. John M. Keynes
   b. Paul A. Samuelson
   c. William D. Nordhaus
   d. Simon Kuznets
   e. Milton Friedman

   ANS: D   REF: Section: 2.1

2. The National Income and Product Accounts provides a system for
   a. aggregating the production of all goods and services into a single measure of economic activity.
   b. aggregating the production of all goods into a single measure of economic activity.
   c. aggregating the production of all services into a single measure of economic activity.
   d. aggregating the production of most goods and services into a single measure of economic activity.
   e. aggregating the production of all goods and services into two measures of economic activity.

   ANS: A   REF: Section: 2.1

3. The National Income and Product Accounts allows us to relate _____ to _____ to _____.
   a. household income; government income; firm income
   b. total output; total spending; inflation
   c. total output; inflation; total income
   d. household income; household expenditure; total output
   e. total output; total spending; total income

   ANS: E   REF: Section: 2.1

4. The National Income and Product Accounts identity states
   a. Expenditure = Production + Income
   b. Production = Expenditure – Income
   c. Production = Expenditure + Income
   d. Expenditure = Production – Income
   e. Production = Expenditure = Income

   ANS: E   REF: Section: 2.2

5. The difference between *economic* profits and *normal* profits is that
   a. normal profits are earnings based on the normal competitive return to one's own labor; economic profits are the above-normal returns associated with prices that exceed competitive prices.
   b. economic profits are earnings based on the normal competitive return to one's own labor; normal profits are the above-normal returns associated with prices that exceed competitive prices.
   c. normal profits are earnings based on the normal competitive return to one's own labor; economic profits are the above-normal returns associated with prices that exceed monopolistic prices.

d. economic profits are earnings based on the noncompetitive return to one's own labor; normal profits are the above-normal returns associated with prices that exceed competitive prices.

e. None of the above is correct.

ANS: A   REF: Section: 2.2

6. A lesson from microeconomics is that, unless there is some market power where firms charge prices above marginal cost, _____ are zero.

a. costs
b. revenues
c. normal profits
d. economic profits
e. variable costs

ANS: D   REF: Section: 2.2

7. A lesson from microeconomics is that under perfect competition, where firms charge prices equal to marginal cost, _____ are zero.

a. revenues
b. economic profits
c. normal profits
d. variable costs
e. wages

ANS: C   REF: Section: 2.2

8. The statistic used by economists to measure the value of economic output is

a. the unemployment rate.
b. GDP.
c. the CPI.
d. the GDP deflator.
e. the federal funds rate.

ANS: B   REF: Section: 2.2

9. An economy's _____ is equal to its _____.

a. consumption; income
b. expenditure on goods and services; output
c. expenditure on goods; expenditure on services
d. investment; government expenditures
e. taxes; net exports

ANS: B   REF: Section: 2.2

10. If Y is GDP, C is consumption, I is investment, G is government purchases, and NX is net exports, according to the expenditure approach, the national income identity can be written as

a. $Y = C + I + G$.
b. $Y = C + I + G - \text{NX}$.
c. $Y + C = I + G + \text{NX}$.
d. $Y = (C + I + G)/\text{NX}$.
e. $Y = C + I + G + \text{NX}$.

ANS: E   REF: Section: 2.2

11. If Y is GDP, C is consumption, I is investment, G is government purchases, and NX is net exports,

according to the expenditure approach, the national income identity can be written as
a. $Y + C - G = I + NX$.
b. $Y - C = I + G - NX$.
c. $Y - C - G - I = NX$.
d. $Y = (C + I + G)/NX$.
e. $Y = C + I + G$.

ANS: C   REF: Section: 2.2

12. If Y is GDP, C is consumption, I is investment, G is government purchases, and NX is net exports, according to the expenditure approach, which of the following is the national income identity?
a. $Y = C + I + G - NX$
b. $Y = C + I + G + NX$
c. $Y + C = I + G + NX$
d. $Y = (C + I + G)/NX$
e. $Y = C + I + G$

ANS: B   REF: Section: 2.2

Table 2.1: U.S. 2006 Gross Domestic Product ($billions)

Personal consumption expenditures	9269
Goods	3785
Services	5484
Gross private domestic investment	2213
Fixed investment	2163
Change in private inventories	50
Net exports of goods and services	−763
Exports	1466
Imports	2229
Government expenditures	2528
Federal	927
State and local	1601

13. Consider Table 2.1, the National Income Accounts for 2006; from the data, total GDP is
a. $30,951 billion.
b. $13,247 billion.
c. $14,772 billion.
d. $14,009 billion.
e. $10,719 billion.

ANS: B   REF: Section: 2.2

14. In 2005, household expenditures accounted for about _____ of total GDP.
a. 19 percent
b. 40 percent
c. 16 percent
d. 70 percent
e. 11 percent

ANS: D   REF: Section: 2.2

15. In 2005, investment expenditures accounted for about _____ of total GDP.

a. 70 percent
b. 40 percent
c. 16 percent
d. 19 percent
e. 11 percent

ANS: C   REF: Section: 2.2

16. In 2005, government expenditures accounted for about _____ of total GDP.
    a. 11 percent
    b. 40 percent
    c. 16 percent
    d. 70 percent
    e. 19 percent

ANS: E   REF: Section: 2.2

17. Using the expenditure approach, government expenditures include
    a. defense and nondefense federal, state, and local government expenditures.
    b. only nondefense federal government expenditures.
    c. only federal government expenditures.
    d. only state and local government expenditures.
    e. residential investment and state and local government expenditures.

ANS: A   REF: Section: 2.2

18. Using the expenditure approach, consumption expenditures include
    a. household purchases of durable and nondurable goods and services.
    b. household purchases of durable and nondurable goods.
    c. household purchases of durable and nondurable goods and taxes.
    d. household purchases of durable and nondurable goods and residences.
    e. household purchases of nondurable goods.

ANS: A   REF: Section: 2.2

19. Using the expenditure approach, investment includes
    a. household residential expenditures.
    b. firm structures, equipment, and inventories.
    c. fixed firm and household structures and inventories.
    d. government and firm equipment expenditures.
    e. government defense and firm equipment expenditures.

ANS: C   REF: Section: 2.2

20. Which of the following are *not* included in the expenditure approach to National Income Accounting?
    a. transfer payments
    b. taxes
    c. Social Security
    d. changes in the stock exchange
    e. all of the above

ANS: E   REF: Section: 2.2

21. Which of the following are *not* included in the expenditure approach to National Income Accounting?
    a. defense expenditures
    b. firm expenditures on equipment

c. residential expenditures
d. household service expenditures
e. none of the above

ANS: C   REF: Section: 2.2

22. In 2005, the U.S. GDP was about _____, and _____ was the largest share.
    a. $5 trillion; consumption
    b. $12.5 trillion; government expenditures
    c. $10.5 trillion; investment
    d. $12.5 billion; consumption
    e. $12.5 trillion; consumption

ANS: E   REF: Section: 2.2

23. Which of the following are *not* included in the expenditure approach to National Income Accounting?
    a. transfers
    b. taxes
    c. defense expenditures
    d. a and b
    e. none of the above

ANS: B   REF: Section: 2.2

24. United States expenditure shares by households, firms, and the government have been relatively _____
    except during _____.
    a. constant; the 1970s
    b. variable; the Great Depression
    c. constant; World War II
    d. constant; Vietnam War
    e. variable; the 1990s

ANS: C   REF: Section: 2.2

25. Since about _____, United States expenditure shares by households, firms, and the government
    have been relatively _____.
    a. 1939; constant
    b. the Great Depression; constant
    c. 1950; variable
    d. 1950; constant
    e. 1929 until 1945; constant

ANS: D   REF: Section: 2.2

26. Prior to the late 1970s, the United States _____ about as much as it _____.
    a. exported; consumed
    b. exported; imported
    c. imported; consumed
    d. invested; exported
    e. imported; invested

ANS: B   REF: Section: 2.2

27. According to the *income* approach to GDP, the largest percentage of GDP comes from
    a. indirect business taxes.
    b. firm profits.

c. compensation to employees.
d. depreciation of fixed capital.
e. None of the above.

ANS: C   REF: Section: 2.2

Table 2.2: U.S. 2005 and 2006 GDP, the Income Approach ($billions)

	2005	2006
Compensation of employees, paid	7037	7496
Wage and salary accruals	5671	6042
Supplements to wages and salaries	1866	1454
Indirect taxes	865	913
Net operating surplus	2878	3264
Private enterprises	2894	3274
Current surplus of government enterprises	−15	−10
Depreciation of fixed capital	1605	1577
Private	1353	1311
Government	252	266

28. Consider Table 2.2, National Income Accounts for 2005 and 2006. From this data, total GDP in 2005 was
    a. $10,780.
    b. $24,884.
    c. $14,073.
    d. $12,385.
    e. Not enough information is given.

    ANS: D   REF: Section: 2.2

29. Since about 1970, _____ income share of GDP has been _____.
    a. labor's; rising
    b. labor's; falling
    c. profits; falling
    d. indirect business taxes; rising
    e. None of the above is correct.

    ANS: B   REF: Section: 2.2

30. When the city of Los Angeles hires more police officers, _____ may rise, but it may be due to the _____ associated with crime.
    a. GDP; costs
    b. revenues; costs
    c. taxes; benefits
    d. interest rates; costs
    e. prices; costs

    ANS: A   REF: Section: 2.2

31. When a state builds a new penitentiary, _____ rise(s), but that does not imply that _____ improve(s).
    a. income; welfare
    b. GDP; taxes
    c. GDP; transfers
    d. GDP; welfare
    e. taxes; costs

    ANS: D   REF: Section: 2.2

32. Which of the following counts toward changes in the current GDP?
    a. A student buys another year of tuition.
    b. You purchase a used stereo from a friend.
    c. The government builds a new highway.
    d. All of the above.
    e. a and c.

    ANS: E   REF: Section: 2.2

33. Which of the following does *not* count toward changes in the current GDP?
    a. A student buys another year of tuition.
    b. You buy a used car from your parents.
    c. The local police station buys new squad cars.
    d. None of the above.
    e. b and c.

    ANS: B   REF: Section: 2.2

34. By how much does the current GDP rise in the following scenario? A real estate agent sells a house for $250,000 that the previous owners had purchased 10 years earlier for $90,000. The real estate agent earns a commission of $10,000.
    a. $160,000
    b. $250,000
    c. $10,000
    d. $90,000
    e. $260,000

    ANS: C   REF: Section: 2.2

35. By how much does GDP change between 2004 and 2005 in the following scenario? In 2004, a rich woman has a butler and pays him $50,000 to perform butler services. In 2005, she marries the butler but he continues to perform butler services.
    a. GDP rises by $50,000.
    b. GDP is unchanged.
    c. GDP falls by $50,000.
    d. None of the above is correct.
    e. Not enough information is given.

    ANS: C   REF: Section: 2.2

36. Nominal GDP is the _____ of all goods and services produced in a period of time using _____ prices.
    a. value; 1945
    b. summation; current
    c. value; a previous year's

d. value; current

e. summation; base year

ANS: D   REF: Section: 2.3

37. Real GDP is the _____ of all goods and services produced in a period of time using _____ prices.

    a. summation; current
    b. value; base year
    c. value; 1970
    d. value; 1945
    e. summation; base year

    ANS: B   REF: Section: 2.3

38. Nominal GDP is given by _____ where the price level is the _____.

    a. Nominal GDP = Price level $\times$ Real GDP; GDP deflator
    b. Nominal GDP = Price level $\div$ Real GDP; GDP deflator
    c. Nominal GDP = Price level + Real GDP; CPI
    d. Nominal GDP = Price level – Real GDP; GDP deflator
    e. Nominal GDP = Price level $\times$ Real GDP; CPI

    ANS: A   REF: Section: 2.3

39. Real GDP is given by _____, where the price level is the _____.

    a. Real GDP = Nominal GDP $\times$ Price level; CPI
    b. Real GDP = Nominal GDP $\div$ Price level; GDP deflator
    c. Real GDP = Nominal GDP + Price level; GDP deflator
    d. Real GDP = Nominal GDP – Price level; GDP deflator
    e. Real GDP = Nominal GDP $\div$ Price level; CPI

    ANS: B   REF: Section: 2.3

40. The price level can be derived as _____ and is called the _____.

    a. Price level = Nominal GDP $\div$ Real GDP; CPI
    b. Price level = Nominal GDP $\cdot$ Real GDP; CPI
    c. Price level = Real GDP $\times$ Nominal GDP; GDP deflator
    d. Price level = Real GDP $\div$ Nominal GDP; GDP deflator
    e. Price level = Nominal GDP $\div$ Real GDP; GDP deflator

    ANS: E   REF: Section: 2.3

41. The percent change in the nominal GDP is given as

    a. Percent change in the Price level + Percent change in Real GDP.
    b. Percent change in the Price level – Percent change in Real GDP.
    c. Percent change in the Price level $\times$ Percent change in Real GDP.
    d. Percent change in the Price level $\div$ Percent change in Real GDP.
    e. None of the above.

    ANS: A   REF: Section: 2.3

42. If the percent change in the price level is _____ than the percent change in _____, _____.

    a. smaller; nominal GDP; real GDP shrinks
    b. greater; nominal GDP; real GDP shrinks

   c.   greater; real GDP; nominal GDP shrinks
   d.   greater; real GDP; nominal GDP stays the same
   e.   Not enough information is given.

ANS: B   REF: Section: 2.3

43. Nominal gross domestic product is defined as
   a.   the value of *all* goods and services produced by an economy, within its borders, over a period of time, at base-year prices.
   b.   the value of *all* goods produced by an economy, within its borders, over a period of time, at current prices.
   c.   the value of *all* goods and services produced by an economy, within its borders, over a period of time, at current prices.
   d.   the value of *all* goods and services produced by an economy's citizens, regardless of where they live, over a period of time, at current prices.
   e.   the value of *all* goods and services produced by an economy's citizens, regardless of where they live, over a period of time, at base-year prices.

ANS: C   REF: Section: 2.3

44. Nominal gross national product is defined as
   a.   the value of *all* goods and services produced by an economy's citizens, regardless of where they live, over a period of time, at current prices.
   b.   the value of *all* goods and services produced by an economy, within its borders over a period of time, at current prices.
   c.   the value of *all* goods produced by an economy, within its borders, over a period of time, at current prices.
   d.   the value of *all* goods and services produced by an economy, within its borders, over a period of time, at base-year prices.
   e.   the value of *all* goods produced by an economy, within its borders, over a period of time, at base-year prices.

ANS: A   REF: Section: 2.3

45. Real gross domestic product is defined as
   a.   the value of *all* goods and services produced by an economy, within its borders, over a period of time, at base-year prices.
   b.   the value of *all* goods and services produced by an economy, within its borders, over a period of time, at current prices.
   c.   the value of *all* goods produced by an economy, within its borders, over a period of time, at current prices.
   d.   the value of *all* goods and services produced by an economy's citizens, regardless of where they live, over a period of time, at current prices.
   e.   the value of *all* goods and services produced by an economy's citizens, regardless of where they live, over a period of time, at base-year prices.

ANS: A   REF: Section: 2.3

46. Real gross national product is defined as
   a.   the value of *all* goods and services produced by an economy's citizens, regardless of where they live, over a period of time, at base-year prices.
   b.   the value of *all* goods and services produced by an economy's citizens, regardless of where they live, over a period of time, at current prices.
   c.   the value of *all* goods and services produced by an economy, within its borders, over a period of time, at current prices.

d. the value of *all* goods produced by an economy, within its borders, over a period of time, at current prices.
e. the value of *all* goods and services produced by an economy, within its borders, over a period of time, at base-year prices.

ANS: A   REF: Section: 2.3

The next seven questions use Table 2.3. The economy produces only two goods, almonds and DVDs.

Table 2.3: National Income Accounting

	2004	2005
Quantity of almonds	1000	1100
Quantity of DVDs	500	500
Price of almonds	$1.00	$1.50
Price of DVDs	$15.00	$14.75

47. Consider Table 2.3. Using the Laspeyres index, the real GDP in 2004 is
    a. $8900.
    b. $8500.
    c. $1500.
    d. $15,500.
    e. $9150.

ANS: B   REF: Section: 2.3

48. Consider Table 2.3. Using the Laspeyres index, the real GDP in 2005 is
    a. $9025.
    b. $8500.
    c. $8600.
    d. $9150.
    e. $8475.

ANS: C   REF: Section: 2.3

49. Consider Table 2.3. Using the Paasche index, the real GDP in 2005 is
    a. $9150.
    b. $8500.
    c. $8600.
    d. $9025.
    e. $8475.

ANS: D   REF: Section: 2.3

50. Consider Table 2.3. Using the Paasche index, real GDP in 2004 is
    a. $8475.
    b. $8500.
    c. $8600.
    d. $9150.
    e. $8875.

ANS: E   REF: Section: 2.3

51. Consider Table 2.3. Using the Laspeyres index, inflation between 2004 and 2005 was about

a. 0 percent.
b. 5 percent.
c. 1 percent.
d. 6 percent.
e. Not enough information is given.

ANS: B   REF: Section: 2.3

52. Consider Table 2.3. Using the Laspeyres index, the percent change in real GDP was about
    a. 6 percent.
    b. 5 percent.
    c. 0 percent.
    d. 1 percent.
    e. Not enough information is given.

    ANS: D   REF: Section: 2.3

53. Consider Table 2.3. Using the Laspeyres index, the percent change in nominal GDP was about
    a. 5 percent.
    b. 1 percent.
    c. 6 percent.
    d. 0 percent.
    e. Not enough information is given.

    ANS: C   REF: Section: 2.3

54. If we calculate the real GDP using the _____ index, we use the _____ period's prices.
    a. Laspeyres; final
    b. Paasche; final
    c. Paasche; initial
    d. chain-weighted; current
    e. chain-weighted; final

    ANS: B   REF: Section: 2.3

55. If we calculate the real GDP using the initial period's prices, we are using a _____ index. If, instead, we use the final period's prices, we are using a _____ index.
    a. Paasche; chain-weighted
    b. Laspeyres; chain-weighted
    c. Laspeyres; Paasche
    d. Paasche; Laspeyres
    e. chain-weighted; Paasche

    ANS: C   REF: Section: 2.3

56. The chain-weighted measure of real GDP uses prices from
    a. a constant base year.
    b. a constantly changing base year.
    c. a base year that changes every five years.
    d. a base year that changes every 10 years.
    e. None of the above.

    ANS: B   REF: Section: 2.3

57. Suppose we calculate the percent change in real GDP from year 1 to year 2 using both the Laspeyres and the Paasche indices. With the Laspeyres index we get 12 percent and with the Paasche index we get 9 percent. The chain-weighted growth of real GDP is
   a. 1.5 percent.
   b. 9.75 percent.
   c. 1.33 percent.
   d. 9.5 percent.
   e. 10.5 percent.

   ANS: E   REF: Section: 2.3

58. If NGDP is nominal GDP and RGDP is real GDP, which of the following can be used to calculate inflation?
   a. Percent change in NGDP + Percent change in RGDP
   b. Percent change in NGDP – Percent change in RGDP
   c. Percent change in NGDP × Percent change in RGDP
   d. Percent change in RGDP + Percent change in NGDP
   e. Percent change in RGDP – Percent change in NGDP

   ANS: B   REF: Section: 2.3

59. If NGDP is nominal GDP and P is the price level, which of the following can be used to calculate the growth of the real GDP?
   a. Percent change in NGDP – Percent change in P
   b. Percent change in NGDP + Percent change in P
   c. Percent change in NGDP × Percent change in P
   d. Percent change in P + Percent change in NGDP
   e. Percent change in P – Percent change in NGDP

   ANS: A   REF: Section: 2.3

60. If the nominal GDP rises by 3 percent and the price level rises by 5 percent, then the real GDP _____ by _____.
   a. rises; 8 percent
   b. falls; 8 percent
   c. rises; 2 percent
   d. falls; 2 percent
   e. None of the above.

   ANS: D   REF: Section: 2.3

61. If the nominal GDP rises by 6 percent and the price level rises by 3 percent, then the real GDP _____ by _____.
   a. falls; 3 percent
   b. rises; 9 percent
   c. rises; 3 percent
   d. falls; 9 percent
   e. None of the above.

   ANS: C   REF: Section: 2.3

62. To get a more accurate view of the size of countries' economies, we first need to convert each country's GDP to the dollar using _____ and then adjust for _____.
   a. the interest rate; the exchange rate
   b. the exchange rate; price level differences

c. price level differences; the interest rate
d. the exchange rate; fiscal policy
e. fiscal policy; the exchange rate

ANS: B   REF: Section: 2.3

63. If we want to calculate the Mexican real GDP in U.S. dollars but adjusted for prices, we use the following:

a. $\text{Real GDP}_{\text{Mex}}^{\text{US prices}} = \dfrac{\text{Price level}_{US}}{\text{Price level}_{MEX}} \times \text{Nominal GDP}_{\text{MEX}}$

b. $\text{Real GDP}_{\text{Mex}}^{\text{US prices}} = \dfrac{\text{Price level}_{MEX}}{\text{Price level}_{US}} \times \text{Nominal GDP}_{\text{MEX}}$

c. $\text{Real GDP}_{\text{Mex}}^{\text{US prices}} = \dfrac{\text{Price level}_{US}}{\text{Price level}_{MEX}} \times \text{Nominal GDP}_{\text{US}}$

d. $\text{Real GDP}_{\text{Mex}}^{\text{US prices}} = \dfrac{\text{Price level}_{US}}{\text{Price level}_{MEX}} \div \text{Nominal GDP}_{\text{MEX}}$

e. None of the above.

ANS: A   REF: Section: 2.4

64. If we want to calculate the U.S. real GDP in Mexican pesos, we would use the following:

a. $\text{Real GDP}_{\text{US.}}^{\text{MEX prices}} = \dfrac{\text{Price level}_{MEX}}{\text{Price level}_{US}} \times \text{Nominal GDP}_{\text{US.}}$

b. $\text{Real GDP}_{\text{MEX}}^{\text{US. prices}} = \dfrac{\text{Price level}_{US}}{\text{Price level}_{MEX}} \times \text{Nominal GDP}_{\text{US.}}$

c. $\text{Real GDP}_{\text{MEX}}^{\text{US. prices}} = \dfrac{\text{Price level}_{US}}{\text{Price level}_{MEX}} \div \text{Nominal GDP}_{\text{US.}}$

d. $\text{Real GDP}_{\text{MEX}}^{\text{US. prices}} = \dfrac{\text{Price level}_{US}}{\text{Price level}_{MEX}} \div \text{Nominal GDP}_{\text{US.}}$

e. None of the above.

ANS: B   REF: Section: 2.4

65. Define $E = \$/\pounds$ as the dollar/pound exchange rate and NGDP_{UK} as the United Kingdom's nominal GDP; then $\text{NGDP}_{\text{UK}}^{\text{US}}$, the United Kingdom's nominal GDP in dollars, is given by

a. $E = \text{NGDP}_{\text{UK}} \times \text{NGDP}_{\text{UK}}^{\text{US}}$.

b. $\text{NGDP}_{\text{UK}}^{\text{US}} = E \div \text{NGDP}_{\text{UK}}$.

c. $\text{NGDP}_{\text{UK}} = E \times \text{NGDP}_{\text{UK}}^{\text{US}}$.

d. $\text{NGDP}_{\text{UK}}^{\text{US}} = E \times \text{NGDP}_{\text{UK}}$.

e. None of the above.

ANS: D   REF: Section: 2.4

66. Nominal GDP means that the value of all goods and services is measured in _____ prices.
a. average
b. last year's
c. the base year's
d. current
e. constant

ANS: D   REF: Section: 2.3

Table 2.4: European Nominal GDP

Eurozone nominal GDP (billions)	€8374
U.S. nominal GDP (billions)	$13,322
Dollar/euro exchange rate	$1.30/€1
P_{EZ}/P_{US}	0.90

67. Consider the data in Table 2.4. The value of Eurozone nominal GDP in U.S. dollars is
    a. $9797 billion.
    b. $9304 billion.
    c. $10,886 billion.
    d. $7536 billion.
    e. $6441 billion.

    ANS: C   REF: Section: 2.4

68. Consider the data in Table 2.4. The value of the Eurozone nominal GDP in U.S. dollars adjusted for price differences is
    a. $6441 billion.
    b. $9304 billion.
    c. $10,886 billion.
    d. $7536 billion.
    e. $9797 billion.

    ANS: E   REF: Section: 2.4

69. Consider the data in Table 2.4. When we convert the Eurozone's nominal GDP into dollars and adjust for price differences, the U.S. economy is about _____ times _____ than the Eurozone economy.
    a. 1.35; smaller
    b. 1.35; bigger
    c. 1.22; bigger
    d. 1.22; smaller
    e. Not enough information is given.

    ANS: B   REF: Section: 2.4

70. Consider the data in Table 2.4. When we convert the Eurozone's nominal GDP into dollars but do not adjust for price differences, the U.S. economy is about _____ times _____ than the Eurozone economy.
    a. 1.22; smaller
    b. 1.35; smaller
    c. 1.35; bigger
    d. 1.22; bigger
    e. Not enough information is given.

    ANS: D   REF: Section: 2.4

71. Which macroeconomic variables has the text not yet discussed in much detail?
    a. the unemployment rate
    b. interest rates
    c. exchange rates
    d. All of the above.

e. None of the above.

ANS: D   REF: Section: 2.5

72. Which macroeconomic variables has the text not yet discussed in much detail?
    a. nominal GDP
    b. real GDP
    c. GDP deflator
    d. All of the above.
    e. None of the above.

ANS: E   REF: Section: 2.5

TRUE/FALSE

1. The largest GDP expenditure share historically has been government expenditure.

    ANS: F
    It is consumption expenditure.

    REF: Section: 2.2

2. In 2005, consumption expenditures accounted for about 70 percent of the total GDP.

    ANS: T   REF: Section: 2.2

3. The value added for a good produced is equal to the value of the firm's output *plus* the value of the intermediate goods used to produce that output.

    ANS: F
    It is equal to the value of the firm's output *minus* the value of the intermediate goods used to produce that output.

    REF: Section: 2.2

4. According to the expenditure approach to GDP, household expenditures include purchases of residential housing.

    ANS: F
    Residential housing is included in investment expenditures.

    REF: Section: 2.2

5. According to the expenditure approach to GDP, investment expenditures include purchases of residential housing.

    ANS: T   REF: Section: 2.2

6. According to the income approach to GDP, the largest portion of GDP is compensation to employees.

    ANS: T   REF: Section: 2.2

7. According to the income approach to GDP, the largest portion of GDP is net operating surplus.

ANS: F
It is compensation to employees.

REF: Section: 2.2

8. In the income approach to GDP, fixed capital depreciation is defined as the after-tax profits of a firm.

ANS: F
It is the decline in the value of capital due to wear and tear.

REF: Section: 2.2

9. GDP measures *all* economic activity.

ANS: F
It measures only *market* activity.

REF: Section: 2.2

10. When you cook yourself dinner, you are contributing to economic activity, but it is not measured in GDP.

ANS: T   REF: Section: 2.2

11. When you buy a car from your brother, which he bought new in 2000, the purchase adds to the current GDP.

ANS: F
It added to 2000s GDP.

REF: Section: 2.2

12. GDP often is used as a "measure" of economic welfare; it includes all factors that contribute to economic wellbeing.

ANS: F
It does not include costs like pollution, crime, depletion of resources, and environmental degradation.

REF: Section: 2.2

13. If the percent change in prices is greater than the percent change in the nominal GDP, the real GDP shrinks.

ANS: T   REF: Section: 2.2

14. If the percent change in prices is greater than the percent change in the nominal GDP, the real GDP rises.

ANS: F
It shrinks: $g_{\text{NGDP}} = g_{\text{NGDP}} - \pi < 0.$.

REF: Section: 2.2

15. When calculating the real GDP using the Laspeyres index, we use the final period's prices.

    ANS: F
    We use the initial period's prices.

    REF: Section: 2.2

16. When calculating the real GDP using the Paasche index, we use the final period's prices.

    ANS: T   REF: Section: 2.2

17. If the nominal GDP rises by 5 percent and the price level falls by 2 percent, the real GDP falls by 7 percent.

    ANS: F
    The real GDP *rises* by 7 percent.

    REF: Section: 2.3

18. If Croatia's price level is higher than the U.S. price level, Croatia's dollar-denominated GDP, calculated using price adjustments, will appear smaller than if simply calculated with the exchange rate.

    ANS: T   REF: Section: 2.4

19. To get an accurate view of how GDPs differ across countries, we simply need to convert all countries' GDPs into dollars using the prevailing exchange rate.

    ANS: F
    We also need to account for price level differences.

    REF: Section: 2.4

20. If the percent change in real GDP is found to be 4 percent using the Laspeyres index and 3 percent using the Paasche index, the chain-weighted price index will give us a growth rate of 3.5 percent.

    ANS: T
    $3.5 = (1/2)(4\% + 3\%)$.

    REF: Section: 2.3