

**TEST BANK**

# Macroeconomics

Third Edition



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## Macroeconomics, 3e (Williamson)

### Chapter 2 Measurement

- 1) The principal printed source for reporting the U.S. National Income and Product Accounts is called the
- A) *Monthly Labor Review*.
  - B) *Survey of Current Business*.
  - C) *Current Population Survey*.
  - D) *GDP Statistical Review*.

Answer: B

*Question Status: Previous Edition*

- 2) The three approaches to measuring GDP are called the
- A) accounting approach, the income approach, and the expenditure approach.
  - B) product approach, the cost approach, and the expenditure approach.
  - C) product approach, the income approach, and the expenditure approach.
  - D) accounting approach, the statistical approach, and the income approach.

Answer: C

*Question Status: Previous Edition*

- 3) Approaches to measuring GDP include all of the following **except** the
- A) cost approach.
  - B) product approach.
  - C) income approach.
  - D) expenditure approach.

Answer: A

*Question Status: Previous Edition*

- 4) Jim's Nursery produces and sells \$1100 worth of flowers. Jim uses no intermediate inputs. He pays his workers \$700 in wages, pays \$100 in taxes and pays \$200 in interest on a loan. Jim's contribution to GDP is
- A) \$900.
  - B) \$1000.
  - C) \$1100.
  - D) \$1800.

Answer: C

*Question Status: Previous Edition*

- 5) Jim's Nursery produces and sells \$1100 worth of flowers. Jim uses no intermediate inputs. He pays his workers \$700 in wages, pays \$100 in taxes and pays \$200 in interest on a loan. Jim's profit is
- A) \$100.
  - B) \$200.
  - C) \$400.
  - D) \$800.

Answer: A

*Question Status: Previous Edition*

- 6) Acme Steel Co. produces 1000 tons of steel. Steel sells for \$30 per ton. Acme pays wages of \$10,000. Acme buys \$15,000 worth of coal, which is needed to produce the steel. Acme pays \$2,000 in taxes. Acme's contribution to GDP is
- A) \$15,000.
  - B) \$20,000.
  - C) \$30,000.
  - D) \$45,000.

Answer: A

*Question Status: Previous Edition*

- 7) Acme Steel Co. produces 1000 tons of steel. Steel sells for \$30 per ton. Acme pays wages of \$10,000. Acme buys \$15,000 worth of coal, which is needed to produce the steel. Acme pays \$2,000 in taxes. Acme's profit is
- A) \$0.
  - B) \$2,000.
  - C) \$3,000.
  - D) \$15,000.

Answer: C

*Question Status: Previous Edition*

- 8) Pamela's bakery produces 500 loaves of bread in a given year. Pamela pays \$100 for flour and yeast, pays \$600 in wages, pays \$50 in interest on an existing loan, and pays \$100 in taxes to the government. One of Pamela's bread slicing machines, which cost \$75 each, wears out over the course of the year and must be scrapped. Pamela's profit for the year equals \$75. Pamela's bread, therefore, sells for
- A) \$0.50 per loaf.
  - B) \$1.00 per loaf.
  - C) \$2.00 per loaf.
  - D) cannot tell, insufficient information

Answer: C

*Question Status: Previous Edition*

- 9) Suppose we have the following information about a car manufacturer: car sales \$1000M, steel purchases \$600M, wages \$300M, interest on business loans \$50M, and profits \$50M. What is its contribution to GDP using the product approach?
- A) \$1000M
  - B) \$600M
  - C) \$400M
  - D) \$350M

Answer: C

*Question Status: New*

- 10) We know the following about a tie manufacturer: tie sales \$1,300, cotton purchases \$750, wages \$400, interest on business loans \$100, and profits \$50. What is the contribution to GDP of this producer using the income approach?
- A) \$550
  - B) \$500
  - C) \$450
  - D) \$400

Answer: A

*Question Status: New*

- 11) You are a baker. You paid \$150K in wages, \$50K for dough, \$20K for power, \$5K in interest for a business loan, \$25K in taxes, and made a profit of \$10K. How much did you contribute to GDP using the product approach?
- A) \$80K
  - B) \$85K
  - C) \$190K
  - D) \$260K

Answer: C

*Question Status: New*

- 12) We learn the following about a ski resort: ticket sales \$100M, snow making expenses \$70M, wages \$20M, interest on business loans \$5M, and profits \$5M. What is the contribution to GDP using the product approach?
- A) \$70M
  - B) \$80M
  - C) \$95M
  - D) \$100M

Answer: A

*Question Status: New*

- 13) Gelato ice cream maker shows the following on its balance sheet: revenue \$200M, wages \$100M, milk expenses \$50M, strawberry purchases \$5M, and taxes \$25M. What is Gelato's contribution to GDP using the income approach?
- A) \$100M
  - B) \$125M
  - C) \$145M
  - D) \$200M

Answer: B

*Question Status: New*

- 14) Here is what we know about a household: wages \$25,000, unemployment insurance benefits \$3,000, dividend income \$4,000, income tax \$5,000. What is the contribution to GDP of this household following the expenditure approach?
- A) \$24,000
  - B) \$25,000
  - C) \$28,000
  - D) \$29,000

Answer: C

*Question Status: New*

- 15) The value of a producer's output minus the value of all intermediate goods used in the production of that output is called the producer's
- A) net output.
  - B) accounting profit.
  - C) value added.
  - D) profit margin.

Answer: C

*Question Status: Previous Edition*

- 16) A furniture maker used to buy its wood, but has now bought the lumber company. How does this impact GDP?
- A) It reduces it.
  - B) It does not change.
  - C) It increases it.
  - D) We cannot tell.

Answer: B

*Question Status: New*

- 17) Value added is equal to the value of a firm's production minus
- A) all of its costs of production.
  - B) labor costs.
  - C) investment expenditures.
  - D) intermediate goods used in production.

Answer: D

*Question Status: Previous Edition*

- 18) Suppose that the government collects \$3 million in taxes, pays \$2 million in social security benefits, pays \$0.5 million in interest on the national debt, and pays workers \$1 million to sit at their desks and work as little as possible. The government's contribution to GDP is
- A) \$0.
  - B) \$1 million.
  - C) \$3 million.
  - D) \$3.5 million.

Answer: B

*Question Status: Previous Edition*

- 19) The product approach to measuring GDP values government production at
- A) market prices.
  - B) its cost of production.
  - C) its estimated value to society.
  - D) the total amount of taxes it collects.

Answer: B

*Question Status: Previous Edition*

- 20) The expenditure components of GDP include all of the following **except**
- A) consumption.
  - B) investment.
  - C) net exports.
  - D) net factor payments.

Answer: D

*Question Status: Previous Edition*

- 21) The expenditure components of GDP include all of the following **except**
- A) consumption.
  - B) investment.
  - C) government spending on goods and services.
  - D) the sum of government spending on goods and services, transfer payments, and interest on the national debt.

Answer: D

*Question Status: Previous Edition*

22) The income components of GDP include all of the following **except**

- A) wage income.
- B) foreign income.
- C) net interest income.
- D) after-tax profits.

Answer: B

*Question Status: Previous Edition*

23) The income-expenditure identity is best paraphrased as

- A) all spending generates income.
- B) all profits are used for investment spending.
- C) on average, consumers cannot save.
- D) on average, government can spend no more than what it collects in income taxes.

Answer: A

*Question Status: Previous Edition*

24) Inventory investment consists of

- A) construction expenditures, raw materials, and inventories of finished goods.
- B) goods in process, raw materials, and purchases of office machinery.
- C) raw materials, goods in process, and construction expenditures.
- D) inventories of finished goods, goods in process, and raw materials.

Answer: D

*Question Status: Previous Edition*

25) Additions to inventory are

- A) not counted as an expenditure in GDP accounting.
- B) counted as an intermediate input.
- C) counted as a component of investment spending.
- D) subtracted from sales revenue in calculating profit income.

Answer: C

*Question Status: Previous Edition*

26) To calculate value added, we need to subtract

- A) only the cost of domestically-produced intermediate inputs.
- B) only the cost of foreign-produced intermediate inputs.
- C) the cost of domestic- and foreign-produced intermediate inputs.
- D) total imports.

Answer: C

*Question Status: Previous Edition*

27) GDP and GNP may differ

- A) because some income generated by domestic production may be received as income by foreign residents.
- B) because some intermediate good inputs are imported.
- C) because some workers are illegal aliens.
- D) whenever tariff rates become excessively high.

Answer: A

*Question Status: Previous Edition*

- 28) Suppose that the BMW plant in Spartanburg, SC, produces \$10 million worth of vehicles in a given year. Of this total amount, \$1 million in profits are returned to the owners of the company in Germany. The \$1 million in profits
- A) contributes to both U.S. GDP and U.S. GNP.
  - B) contributes to U.S. GNP, but not U.S. GDP.
  - C) contributes to U.S. GDP, but not U.S. GNP.
  - D) contributes to neither U.S. GDP, nor U.S. GNP.

Answer: C

*Question Status: Previous Edition*

- 29) In recent U.S. history
- A) GDP has been much higher than GNP.
  - B) GNP has been much higher than GDP.
  - C) the difference between GNP and GDP has been very volatile.
  - D) there has been little practical difference between GNP and GDP.

Answer: D

*Question Status: Previous Edition*

- 30) Even when measured accurately, GDP may be a misleading measure of economic welfare because it cannot account for
- A) the value of government spending and how efficiently we produce goods and services.
  - B) how efficiently we produce goods and services and the value of non-market production.
  - C) the value of non-market production and the consequences of an unequal distribution of income.
  - D) the consequences of an unequal distribution of income and the value of government spending.

Answer: C

*Question Status: Previous Edition*

- 31) GDP may inaccurately measure the value of aggregate output because it may not properly account for
- A) production in the underground economy and the true value of government production.
  - B) the true value of government production and the proper value of purchases and sales of used goods.
  - C) the proper value of purchases and sales of used goods and depreciation of consumer durables.
  - D) the depreciation of consumer durables and production in the underground economy.

Answer: A

*Question Status: Previous Edition*

- 32) The components of consumption expenditures include all of the following **except**
- A) nondurable goods consumption.
  - B) durable goods consumption.
  - C) government consumption.
  - D) services.

Answer: C

*Question Status: Previous Edition*

33) Recently, consumption has comprised approximately

- A) one-half of GDP.
- B) two-thirds of GDP.
- C) three-fourths of GDP.
- D) four-fifths of GDP.

Answer: B

*Question Status: Previous Edition*

34) The components of investment expenditures include all of the following **except**

- A) financial investment.
- B) residential investment.
- C) non-residential investment.
- D) inventory investment.

Answer: A

*Question Status: Previous Edition*

35) Investment spending is

- A) less volatile than consumption spending.
- B) much more volatile than consumption spending.
- C) equally as volatile as government spending.
- D) equally as volatile as GDP.

Answer: B

*Question Status: Previous Edition*

36) In recent years, which of the following has comprised less than 5% of GDP?

- A) imports
- B) exports
- C) net exports
- D) none of the above

Answer: C

*Question Status: Previous Edition*

37) Government expenditures includes all of the following **except**

- A) federal defense spending.
- B) federal nondefense spending.
- C) state and local spending.
- D) transfers.

Answer: D

*Question Status: Previous Edition*

38) When there is rapid inflation,

- A) growth in nominal GDP exceeds growth in real GDP.
- B) growth in real GDP exceeds growth in nominal GDP.
- C) growth in real GDP and nominal GDP are roughly equal.
- D) there can never be any growth in nominal GDP.

Answer: A

*Question Status: Previous Edition*



39) If real GDP grows faster than nominal GDP, it is a sign that

- A) inflation is negative.
- B) there is no inflation
- C) there is inflation, but little.
- D) there is galloping inflation.

Answer: A

*Question Status: New*

40) Real GDP values current production at

- A) current year prices.
- B) the best estimate of next year's prices.
- C) the average of price levels over the entire sample period.
- D) base year prices.

Answer: D

*Question Status: Previous Edition*

41) To study a macroeconomy, we need to use real data because

- A) we want to get rid of the illusion of price effects.
- B) we want to concentrate on the production of real goods, as opposed to services.
- C) it is then easier to take logarithms.
- D) it is the only way to reconcile the three approaches to measuring GDP.

Answer: A

*Question Status: New*

42) A price index can be computed by

- A) dividing a nominal variable by its real counterpart.
- B) dividing a real variable by its real counterpart.
- C) subtracting the nominal variable from its real counterpart.
- D) subtracting the real variable from its nominal counterpart.

Answer: A

*Question Status: New*

43) To compute a monthly consumer price index, we need

- A) data about consumption habits in every month.
- B) data about item prices every month.
- C) fixed exchange rates.
- D) the GDP or GNP deflator.

Answer: B

*Question Status: New*

For the following questions, suppose an economy produces only food and clothing, and that price and quantity data are given in the table below.

Year 1		
Good	Quantity	Price
Food	20	\$6
Clothing	10	\$8

Year 2		
Good	Quantity	Price
Food	25	\$10
Clothing	20	\$7

44) Year 1 nominal GDP is

- A) \$200.
- B) \$270.
- C) \$310.
- D) \$390.

Answer: A

*Question Status: Previous Edition*

45) Year 2 nominal GDP is

- A) \$200.
- B) \$270.
- C) \$310.
- D) \$390.

Answer: D

*Question Status: Previous Edition*

46) Suppose that Year 1 is the base year. Year 2 real GDP is

- A) \$200.
- B) \$270.
- C) \$310.
- D) \$390.

Answer: C

*Question Status: Previous Edition*

47) Suppose that Year 2 is the base year. Year 1 real GDP is

- A) \$200.
- B) \$270.
- C) \$310.
- D) \$390.

Answer: B

*Question Status: Previous Edition*

48) Suppose that Year 1 is the base year. What is the growth rate of GDP?

- A) 35%
- B) 55%
- C) 70%
- D) 110%

Answer: B

*Question Status: New*

49) Suppose that Year 2 is the base year. What is the growth rate of GDP?

- A) 44.4%
- B) 58%
- C) 67.5%
- D) 120%

Answer: A

*Question Status: New*

50) Suppose that Year 1 is the base year. The CPI for Year 2 is approximately

- A) 100.0.
- B) 135.0.
- C) 170.0.
- D) 240.0.

Answer: C

*Question Status: New*

51) Suppose that Year 2 is the base year. The CPI for Year 1 is approximately

- A) 80.0.
- B) 90.0.
- C) 100.0.
- D) 120.0.

Answer: A

*Question Status: New*

52) In the United States, real GDP is currently calculated using

- A) a variable-weighting scheme.
- B) a chain-weighting scheme.
- C) a fixed-weighting scheme.
- D) an autoregressive scheme.

Answer: B

*Question Status: Previous Edition*

53) The base year matters for the computation of real GDP because

- A) otherwise we cannot compute growth rates.
- B) it determines the relative weights of goods in GDP.
- C) it allows an international comparison of GDP.
- D) it establishes a target for macroeconomic policy.

Answer: B

*Question Status: New*

54) Construction of chain-weighted real GDP employs the technique of a

- A) Hilfindahl index.
- B) Fisher index.
- C) Gini index.
- D) Body mass index.

Answer: B

*Question Status: Previous Edition*

- 55) Suppose that  $g_1$  represents the ratio of year 2 GDP to year 1 GDP, both valued at year 1 prices. Suppose that  $g_2$  represents the ratio of year 2 GDP to year 1 GDP, both valued at year 2 prices. The ratio of chain-weighted year 2 GDP to chain-weighted year 1 GDP equals
- A)  $(g_1 + g_2)/2$ .
  - B)  $(g_1 \times g_2)/2$ .
  - C)  $(\sqrt{g_1} + \sqrt{g_2})/2$ .
  - D)  $\sqrt{g_1 \times g_2}$ .

Answer: D

Question Status: Previous Edition

For the following question(s), suppose an economy produces only bread and computers. Assume that all production is consumed in each year, and that price and quantity data are given in the table below.

Year 1		
Good	Quantity	Price
Bread	30	\$10
Computers	10	\$50

Year 2		
Good	Quantity	Price
Bread	40	\$15
Computers	30	\$60

- 56) If Year 1 is the base year, the GDP price deflator for Year 2 is approximately
- A) 100.0.
  - B) 126.3.
  - C) 131.3.
  - D) 181.0.

Answer: B

Question Status: Previous Edition

- 57) If Year 1 is the base year, the CPI for Year 2 is approximately
- A) 100.0.
  - B) 126.3.
  - C) 131.3.
  - D) 181.0.

Answer: C

Question Status: Previous Edition

- 58) If Year 1 is the base year, the real GDP of Year 2 is
- A) \$800.
  - B) \$1050.
  - C) \$1900.
  - D) \$2400.

Answer: C

Question Status: New

59) If Year 2 is the base year, the real GDP of Year 1 is

- A) \$800.
- B) \$1050.
- C) \$1900.
- D) \$2400.

Answer: B

*Question Status: New*

60) The nominal GDP of Year 1 is

- A) \$800.
- B) \$1050.
- C) \$1900.
- D) \$2400.

Answer: A

*Question Status: New*

61) The nominal GDP of Year 2 is

- A) \$800.
- B) \$1050.
- C) 1900.
- D) \$2400.

Answer: D

*Question Status: New*

62) If Year 1 is the base year, the growth of real GDP is approximately

- A) 100%.
- B) 109.5%.
- C) 137.5%.
- D) 148%.

Answer: C

*Question Status: New*

63) If Year 1 is the base year, the growth of real GDP is approximately

- A) 100%.
- B) 109.5%.
- C) 137.5%.
- D) 148%.

Answer: C

*Question Status: New*

64) The GDP deflator is a broader measure of the price level than the CPI because

- A) it covers sales tax.
- B) it covers rents.
- C) it covers investment.
- D) it factors out fluctuations in seasonal items.

Answer: C

*Question Status: New*

- 65) In the period 1950–2000, the inflation rate in the U.S. CPI has
- A) varied very little.
  - B) been less variable than the inflation rate in the GDP price deflator.
  - C) been more variable than the inflation rate in the GDP price deflator.
  - D) been substantially equal to the inflation rate in the GDP price deflator every year.

Answer: C

*Question Status: Previous Edition*

- 66) If a particular measure of real GDP consistently underestimates growth in real GDP, then the rate of inflation as measured by the GDP deflator
- A) will consistently be overestimated.
  - B) will consistently be underestimated.
  - C) will be overestimated and underestimated equally often.
  - D) cannot be calculated.

Answer: A

*Question Status: Previous Edition*

- 67) When we try to measure real GDP and the price level, if we underestimate the growth in real GDP, we will
- A) always underestimate the rate of inflation.
  - B) sometimes underestimate the rate of inflation.
  - C) always overestimate the rate of inflation.
  - D) sometimes overestimate the rate of inflation.

Answer: C

*Question Status: Previous Edition*

- 68) All of the following present significant problems with measuring real GDP and the price level **except**
- A) changes in absolute price levels.
  - B) changes in relative price levels.
  - C) changes in the quality of goods over time.
  - D) the introduction of new goods.

Answer: A

*Question Status: Previous Edition*

- 69) An example of a stock would be
- A) real GDP.
  - B) savings.
  - C) investment.
  - D) the amount of money in circulation.

Answer: D

*Question Status: Previous Edition*

- 70) An example of a flow would be the
- A) rate at which water goes down the drain.
  - B) amount of water in a bathtub.
  - C) percentage of pollutants in tap water.
  - D) pressure of water in a pipe.

Answer: A

*Question Status: Previous Edition*

- 71) Suppose that GDP is equal to 1000, national saving is equal to 200, the current account deficit is equal to 100, and the government budget deficit is equal to 50. Private savings must equal
- A) 150.
  - B) 200.
  - C) 250.
  - D) 300.

Answer: C

*Question Status: Previous Edition*

- 72) Suppose that GDP is equal to 1000, national saving is equal to 200, the current account deficit is equal to 100, and the government budget deficit is equal to 50. Investment must equal
- A) 150.
  - B) 200.
  - C) 250.
  - D) 300.

Answer: D

*Question Status: Previous Edition*

- 73) Suppose that in a given country in a given year, GNP equals \$2,000, investment expenditures equal \$200, government expenditures equal \$150, and the current account surplus equals \$50. Consumption expenditures therefore equal
- A) \$1,000.
  - B) \$1,200.
  - C) \$1,400.
  - D) \$1,600.

Answer: D

*Question Status: Previous Edition*

- 74) Private disposable income is equal to
- A)  $Y + TR + INT - T$ .
  - B)  $Y + NFP + TR + INT - T$ .
  - C)  $Y - TR - INT + T$ .
  - D)  $Y + CA - G$ .

Answer: B

*Question Status: Previous Edition*

- 75) Additions to the nation's capital stock are brought about through
- A) the current account surplus.
  - B) investment.
  - C) investment and the current account surplus.
  - D) investment and the government budget surplus.

Answer: B

*Question Status: Previous Edition*

- 76) The unemployment rate equals
- A)  $\frac{\text{labor force}}{\text{number unemployed}}$
  - B)  $\frac{\text{number unemployed}}{\text{labor force}}$
  - C)  $\frac{\text{labor force}}{\text{total working age population}}$
  - D)  $\frac{\text{number unemployed}}{\text{total working age population}}$

Answer: B

Question Status: Previous Edition

- 77) The participation rate equals
- A)  $\frac{\text{labor force}}{\text{number unemployed}}$
  - B)  $\frac{\text{number unemployed}}{\text{labor force}}$
  - C)  $\frac{\text{labor force}}{\text{total working age population}}$
  - D)  $\frac{\text{number unemployed}}{\text{total working age population}}$

Answer: C

Question Status: Previous Edition

- 78) Assume that in an economy with 200M inhabitants, 90M work, 4M are looking for a job, 3M receive unemployment insurance compensation, and 6M receive unemployment insurance compensation and are looking for a job. What is the unemployment rate?
- A) 13%
  - B) 10%
  - C) 6.5%
  - D) 5%

Answer: B

Question Status: New

- 79) Assume that in an economy with 200M inhabitants, 90M work, 4M are looking for a job, 3M receive unemployment insurance compensation, and 6M receive unemployment insurance compensation and are looking for a job. What is the participation rate?
- A) 51.5%
  - B) 50%
  - C) 45%
  - D) 38.5%

Answer: B

Question Status: New



80) In Dakistan, 3M people work, 0.5M are unemployed and get UI benefits, 0.1M are unemployed without UI benefits and 3M have no intention to work. The unemployment rate is (to the nearest %)

- A) 7%.
- B) 9%.
- C) 14%.
- D) 17%.

Answer: D

*Question Status: New*

81) Discouraged workers are

- A) those who have given up looking for work, even though they would like to be employed.
- B) those who quit working because they are dissatisfied with their jobs.
- C) those unmotivated workers who bring down a country's productivity.
- D) those who would like to find a second job to supplement their income, but have not yet found one.

Answer: A

*Question Status: Previous Edition*

82) Who among the following is considered to be in the labor force?

- A) retirees
- B) full-time students
- C) discouraged workers
- D) unemployed workers

Answer: D

*Question Status: New*

83) The primary recommendation coming from a study by Jones and Riddell suggests dividing the population into four distinct groups (instead of the current three). These groups are

- A) the employed, those waiting to be recalled from layoff, the unemployed, and those not in the work force.
- B) the employed combined with those who wish to be employed, students, retirees, and those who are not included in any of the other three groups.
- C) the employed, those waiting to be recalled from layoff, the discouraged workers, and those not in the work force.
- D) the employed, the unemployed, the discouraged workers, and those not in the work force.

Answer: D

*Question Status: Previous Edition*

84) Problems with interpreting the unemployment rate as a measure of labor market tightness include

- A) biases in the CPI and dissatisfied workers.
- B) dissatisfied workers and discouraged workers.
- C) discouraged workers and variations in how intensively the unemployed search for work.
- D) variations in how intensively the unemployed search for work and biases in the CPI.

Answer: C

*Question Status: Previous Edition*