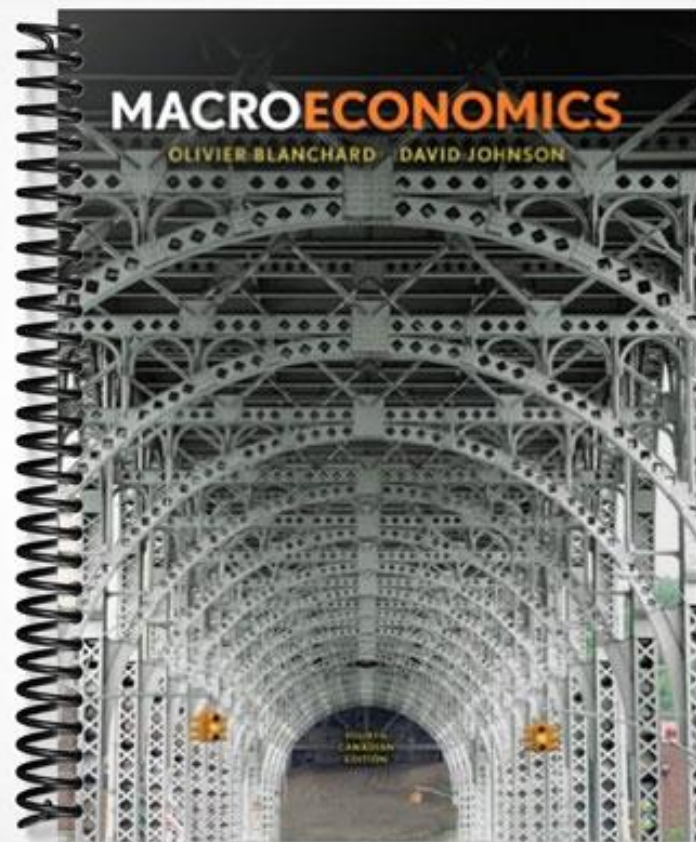


**TEST BANK**



**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

- 1) Which of the following phrases would be used when defining GDP for a given period? 1) \_\_\_\_\_
- A) final and intermediate goods and services
  - B) final and intermediate goods and services, plus raw materials
  - C) final goods and services purchased by domestic households
  - D) final goods and services produced within the borders of a country
  - E) final and intermediate goods and services produced by the private sector only
- 2) Using the income approach, the largest share of GDP goes to: 2) \_\_\_\_\_
- A) labour income.
  - B) capital income.
  - C) indirect taxes.
  - D) indirect income.
  - E) intermediate income.
- 3) In Canada, using 1997 as the base year, we would find that: 3) \_\_\_\_\_
- A) nominal GDP is always larger than real GDP.
  - B) real GDP is always larger than nominal GDP for the period 1960 to 1990.
  - C) real GDP is smaller than nominal GDP from 1988 to 1995.
  - D) real GDP and nominal GDP would be equal for the entire period.
  - E) real GDP is larger than nominal GDP from 1998 to 2002.
- 4) Suppose nominal GDP increases in a given year. Based on this information, we know with certainty that: 4) \_\_\_\_\_
- A) real output has increased.
  - B) the price level (GDP deflator) has increased.
  - C) real output and the price level (GDP deflator) have both increased.
  - D) real output has decreased and the price level has increased.
  - E) either real output or the price level (GDP deflator) have increased.
- 5) If nominal GDP rises from \$10 trillion to \$12 trillion, while the GDP deflator rises from 2.0 to 2.2, the *percentage* change in real GDP is: 5) \_\_\_\_\_
- A) 20%.                      B) 9.1%.                      C) 1.1%.                      D) 10%.                      E) -10%.
- 6) Hedonic pricing is: 6) \_\_\_\_\_
- A) the process of pricing individual characteristics of a good or service.
  - B) the tendency for nominal GDP to rise when the price level rises.
  - C) the way that luxury goods are priced in a market economy.
  - D) the tendency for the inflation rate to rise by greater and greater amounts.
  - E) the process of translating nominal GDP into real GDP.
- 7) Suppose that for the year 2005, a company spends \$200 million on intermediate goods and \$400 million on wages, with no other expenses. Also assume that its total sales are \$900 million. The value added by this company is: 7) \_\_\_\_\_
- A) \$700 million.
  - B) \$800 million
  - C) \$200 million.
  - D) \$500 million.
  - E) \$300 million.
- 8) A firm's value added during the year is equal to its: 8) \_\_\_\_\_

- A) revenue minus wages.  
 B) revenue minus wages and the cost of intermediate goods.  
 C) revenue minus all costs.  
 D) revenue minus the cost of intermediate goods.  
 E) revenue minus wages and profit.
- 9) Suppose that in January 2005 in the United States, 200 million people are working, 20 million are not working but are looking for work, and 40 million are not working and have given up looking for work. The official unemployment rate for that month is: 9) \_\_\_\_\_  
 A) 9.1%.                      B) 30%.                      C) 10%.                      D) 7.7%.                      E) 23%.
- 10) In Canada someone is classified as unemployed if he or she: 10) \_\_\_\_\_  
 A) does not have a job, and is collecting unemployment insurance.  
 B) does not have a job, or else has a job but is looking for a different one while continuing to work.  
 C) does not have a job and has recently looked for work.  
 D) does not have a job.  
 E) none of the above
- 11) An individual is said to be a discouraged worker if he or she: 11) \_\_\_\_\_  
 A) is working, but prefers not to work.  
 B) is working part time, but would prefer a full time job.  
 C) wants to work, and is actively searching for a job.  
 D) is working in jobs she/he is not suited for.  
 E) wants to work, but has given up searching for a job.
- 12) When the unemployment rate rises: 12) \_\_\_\_\_  
 A) the number of discouraged workers tends to fall.  
 B) the number of employed workers tends to rise.  
 C) the number of employed workers tends to remain constant.  
 D) the number of discouraged workers tends to remain constant.  
 E) the labour force participation rate tends to fall.
- 13) Okun's Law indicates that there is an inverse relationship between: 13) \_\_\_\_\_  
 A) the level of output and the inflation rate.  
 B) output growth and unemployment.  
 C) output growth and the inflation rate.  
 D) the level of output and value added.  
 E) output growth and nominal GDP.
- 14) In Canada the labour force is which of the following? 14) \_\_\_\_\_  
 A) the employed  
 B) the entire population minus foreign workers  
 C) the employed and the officially unemployed  
 D) the entire population  
 E) the employed, the officially unemployed, and discouraged workers

*The next questions refer to the following data:*

Suppose a country using the Canadian system of measuring unemployment statistics has 100 million people, of who 50 million are of working age. Of these 50 million, 20 million have jobs. Of the remainder: 10 million are actively searching for jobs; 10 million would like jobs but are *not* searching; and 10 million do *not* want jobs at all.

- 15) The labour force is: 15) \_\_\_\_\_  
A) 30 million. B) 50 million. C) 40 million. D) 20 million. E) 10 million.
- 16) The labour force participation rate is \_\_\_\_\_. 16) \_\_\_\_\_  
A) 0.5 B) 0.3 C) 0.2 D) 0.6 E) 0.4
- 17) The official unemployment rate is \_\_\_\_\_. 17) \_\_\_\_\_  
A) 0.2 B) 0.2 C) 0.33 D) 0.1 E) 0.50
- 18) Which of the following represents what the GDP deflator measures? 18) \_\_\_\_\_  
A) the GDP in one country divided by the GDP in another country  
B) the ratio of nominal GDP to real GDP  
C) the rate at which GDP declines in a recession  
D) the price of a typical consumer's basket of goods  
E) real GDP divided by the aggregate price level
- 19) To calculate real GDP, one must: 19) \_\_\_\_\_  
A) divide the GDP deflator by the consumer price index.  
B) divide nominal GDP by the consumer price index.  
C) divide nominal GDP by the GDP deflator.  
D) multiply nominal GDP by the consumer price index.  
E) multiply nominal GDP by the GDP deflator.
- 20) Prices for which of the following are included in *both* the GDP deflator *and* the consumer price index? 20) \_\_\_\_\_  
A) government goods  
B) consumption goods  
C) exports  
D) investment goods  
E) capital goods
- 21) From the income side, GDP is \_\_\_\_\_ in the economy during a given period 21) \_\_\_\_\_  
A) the sum of incomes  
B) the value of the final goods and services imported  
C) the value of the final goods and services produced  
D) the sum of value added  
E) the sum of taxes
- 22) The Phillips relation (and Phillips curve) illustrates the inverse relationship between: 22) \_\_\_\_\_  
A) inflation rate and the unemployment rate.  
B) the inflation rate and the aggregate price level.  
C) the change in GDP and the unemployment rate.  
D) GDP and the unemployment rate.  
E) the price level and the inflation rate.
- 23) One reason economists worry about inflation is that it causes: 23) \_\_\_\_\_  
A) real GDP to rise.  
B) wages to rise as fast as prices.  
C) real GDP to exceed nominal GDP.  
D) nominal GDP to fall.  
E) relative prices to change.

- 24) In the short run, fluctuations in economic activity are caused primarily by changes in: 24) \_\_\_\_\_  
A) supply.  
B) monetary policy.  
C) demand.  
D) population.  
E) technology.
- 25) In the medium run, changes in GDP are caused mostly by changes in: 25) \_\_\_\_\_  
A) technology, supply and population.  
B) technology, demand and government policy.  
C) technology, supply and demand.  
D) technology, population and demand.  
E) government policy, supply and demand.
- 26) In the long run, changes in GDP are caused mostly by changes in: 26) \_\_\_\_\_  
A) demand.  
B) technology.  
C) fiscal policy.  
D) monetary policy.  
E) population.
- 27) Which of the following prices will be used when calculating the rate of growth of real GDP between the years 2001 and 2002 using the chain method? 27) \_\_\_\_\_  
A) the average of prices in 2001 and 2002  
B) prices in the base year (1992)  
C) either prices in 2001 or in 2002  
D) prices in 2002  
E) prices in 2001
- 28) Which of the following factors is NOT believed to affect output in the long run? 28) \_\_\_\_\_  
A) the size of the labour force  
B) technology  
C) the capital stock  
D) fiscal policy  
E) monetary policy
- 29) In the Canada, labour income accounts for approximately what share of GDP? 29) \_\_\_\_\_  
A) 60%                      B) 33%                      C) 25%                      D) 40%                      E) 45%
- 30) In Canada, capital income accounts for approximately what share of GDP? 30) \_\_\_\_\_  
A) 20%                      B) 10%                      C) 30%                      D) 50%                      E) 40%
- 31) Prices for which of the following are included in the GDP deflator, but NOT included in the Consumer Price Index? 31) \_\_\_\_\_  
A) consumption goods and services  
B) intermediate goods and services  
C) imports  
D) capital goods  
E) firms' purchases of new equipment
- 32) Macroeconomists are concerned about changes in the unemployment rate because changes in the unemployment rate provide information about: 32) \_\_\_\_\_

- A) government programs and the welfare of those who are employed.
- B) the state of the economy and the welfare of those who are unemployed.
- C) the state of the economy and the welfare of the country's population.
- D) the state of the economy and government policies.
- E) government policies and the welfare of those who are unemployed.

- 33) Based on the notation presented in Chapter 2, which of the following expressions represents nominal GDP? 33) \_\_\_\_\_
- A)  $Y_t$                       B)  $\$Y_t/P_t$                       C)  $P_t/Y_t$                       D)  $Y_t/P_t$                       E)  $P_t Y_t$
- 34) The Phillips curve illustrates the relationship between: 34) \_\_\_\_\_
- A) changes in the inflation rate and the unemployment rate.
  - B) the unemployment rate and GDP growth.
  - C) changes in the unemployment rate and GDP growth.
  - D) changes in inflation and GDP growth.
  - E) changes in the unemployment rate and real GDP.
- 35) Suppose nominal GDP in 2003 increased by 6% (over its previous level in 2002). Given this information, we know that: 35) \_\_\_\_\_
- A) real GDP increased during 2003.
  - B) only prices increased in 2003.
  - C) either output or prices increased in 2003.
  - D) the GDP deflator increased during 2003.
  - E) both the GDP deflator and real GDP increased during 2003.
- 36) During the late 1990s, Japan experienced reductions in the GDP deflator. Given this information, we know with certainty that: 36) \_\_\_\_\_
- A) real GDP did not change during these periods.
  - B) real GDP fell during these periods.
  - C) the overall price level in Japan increased during these periods.
  - D) both real GDP and the overall price level decreased during these periods.
  - E) the overall price level in Japan decreased during these periods.
- 37) Hedonic pricing is used to: 37) \_\_\_\_\_
- A) estimate changes in the prices of particular goods.
  - B) calculate the difference between nominal GDP and real GDP.
  - C) measure the rate of change in real GDP.
  - D) obtain chain-weight indexes.
  - E) convert nominal values to real values.
- 38) GDP in current dollars is equivalent to which of the following? 38) \_\_\_\_\_
- A) nominal GDP
  - B) GDP in terms of goods
  - C) GDP in 1992 dollars
  - D) real GDP
  - E) GDP in constant dollars
- 39) Which of the following does NOT represent real GDP? 39) \_\_\_\_\_
- A) GDP in current dollars
  - B) GDP in terms of goods
  - C) GDP in base year dollars
  - D) GDP adjusted for inflation

E) GDP in constant dollars

- 40) From the output side, GDP is \_\_\_\_\_ in the economy during a given period 40) \_\_\_\_\_
- A) the value of the final goods and services imported
  - B) the sum of value added and incomes
  - C) the sum of incomes
  - D) the sum of taxes
  - E) the value of the final goods and services produced

The next questions refer to the following information:

Suppose an economy consists of just three firms:

Steel Company		Lobster Company		Car Company	
Revenues from sales	\$400	Revenues from sales	\$200	Revenues from sales	\$1000
Expenses		Expenses		Expenses	
Wages	\$340	Wages	\$160	Wages	\$500
Profits	\$60	Profits	\$40	Steel purchases	\$400
				Profits	\$100

- 41) According to the final goods approach, the GDP of this economy is: 41) \_\_\_\_\_
- A) 1600.
  - B) 1400.
  - C) 1200.
  - D) 1800.
  - E) 1000.
- 42) According to the value added approach, the GDP of this economy is: 42) \_\_\_\_\_
- A) 1200.
  - B) 1000.
  - C) 1600.
  - D) 1400.
  - E) 500.
- 43) According to the income approach, the GDP of this economy is: 43) \_\_\_\_\_
- A) 1400.
  - B) 600.
  - C) 1200.
  - D) 400.
  - E) 1000.
- 44) Countries with \_\_\_\_\_ generous unemployment benefit systems are \_\_\_\_\_ likely to have \_\_\_\_\_ measured unemployment rates. 44) \_\_\_\_\_
- A) less; less; smaller
  - B) less; more; higher
  - C) less; more; smaller
  - D) more; more; smaller
  - E) less; less; higher
- 45) The Okun's law implies that 45) \_\_\_\_\_
- A) a high output growth will reduce the unemployment rate.
  - B) a high output growth will increase the unemployment rate.
  - C) a low output growth will reduce the unemployment rate.
  - D) a high output growth will increase the inflation rate.
  - E) a high output growth will reduce the inflation rate.
- 46) Based on the notation presented in Chapter 2, which of the following expressions represents the GDP deflator? 46) \_\_\_\_\_
- A)  $P_t/Y_t$
  - B)  $Y_t/\$Y_t$
  - C)  $\$Y_t/Y_t$
  - D)  $P_t Y_t$
  - E)  $P_t/\$Y_t$
- 47) Based on the notation presented in Chapter 2, which of the following expressions represents the rate of inflation? 47) \_\_\_\_\_
- A)  $Y_t/\$Y_t$
  - B)  $(P_t - P_{t-1}) / P_t$
  - C)  $\$Y_t/Y_t$

D)  $(P_t - P_{t-1}) / P_{t-1}$

E)  $(Y_t - Y_{t-1}) / Y_t$

- 48) The consumer price index and the GDP deflator are not necessarily the same because: 48) \_\_\_\_\_
- A) goods in the GDP not sold to consumers are bought by domestic firms and the government.
  - B) goods in the GDP not sold to consumers are exported and bought by foreigners.
  - C) all goods bought by consumers are only produced at home.
  - D) all goods bought by consumers are imported from abroad.
  - E) some goods in the GDP are sold not to consumers, but to firms, to government or to foreigners.
- 49) Regarding the Canadian inflation rate (1962-2007), using the CPI and the GDP deflator, we observe that 49) \_\_\_\_\_
- A) the two inflation rates differ by more than 2% in the 1962-2007 period.
  - B) negative rates are observed using the Consumer Price Index.
  - C) there is no relationship between these two measures of inflation.
  - D) the CPI and the GDP deflator move together most of the time.
  - E) there is a negative relationship between these two measures of inflation.
- 50) About inflation and life satisfaction, recent data suggests that 50) \_\_\_\_\_
- A) the relationship between inflation and life satisfaction depends on how life satisfaction is measured.
  - B) there is a positive relationship between inflation and life satisfaction.
  - C) the relationship between inflation and life satisfaction depends on how inflation is measured.
  - D) there is a negative relationship between inflation and life satisfaction.
  - E) there is no relationship between inflation and life satisfaction.



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