

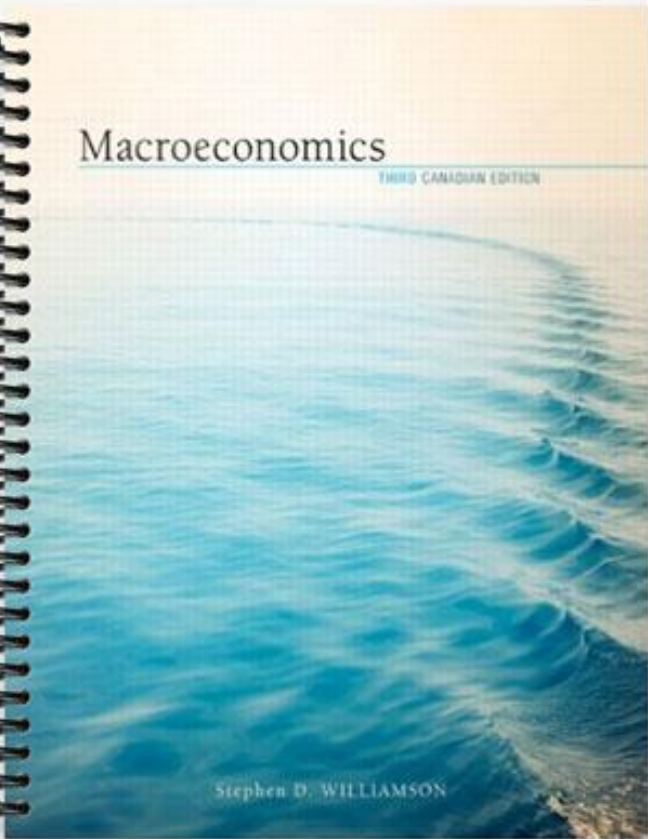
**TEST BANK**



Macroeconomics

THIRD CANADIAN EDITION

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

- 1) Gross domestic product is defined as 1) \_\_\_\_\_
- A) the market value of all goods and services produced in the economy during a given time period within the borders of Canada.
  - B) the total market value of all the intermediate goods and services produced in the economy for a given time period within the borders of Canada.
  - C) the total market value of the final goods and services produced during a given time period within the borders of Canada.
  - D) the value of all goods produced in the economy in a given time period within the borders of Canada.
  - E) the market value of all goods and services produced by Canadian residents domestically and abroad.
- 2) GDP is published by Statistics Canada as part of the 2) \_\_\_\_\_
- A) GDP Statistical Review.
  - B) Survey of Current Business.
  - C) Labour Force Statistics.
  - D) Current Population Survey.
  - E) National Income and Expenditure Accounts (NIEA).
- 3) The three approaches to measuring GDP are called the 3) \_\_\_\_\_
- A) product approach, the cost approach, and the expenditure approach.
  - B) accounting approach, the statistical approach, and the income approach.
  - C) accounting approach, the income approach, and the expenditure approach.
  - D) accounting approach, the statistical approach, and the product approach.
  - E) product approach, the income approach, and the expenditure approach.
- 4) Approaches to measuring GDP include 4) \_\_\_\_\_
- A) cost approach.
  - B) value-subtracted approach.
  - C) income approach.
  - D) trade approach.
  - E) GDP approach.
- 5) 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 5) \_\_\_\_\_
- A) \$20000.      B) \$30000.      C) \$45000.      D) \$15000.      E) \$60000.
- 6) Intermediate goods are 6) \_\_\_\_\_
- A) are not a consumption good.
  - B) that are produced and used as inputs into the production process.
  - C) purchased by consumers.
  - D) sold to foreigners.
  - E) irrelevant in the overall economy.
- 7) 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 7) \_\_\_\_\_
- A) \$200.      B) \$100.      C) \$400.      D) \$1000.      E) \$800.

- 8) 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) \$3000.            B) \$25000.            C) \$2000.            D) \$0.            E) \$15000.
- 9) 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) \$1.50 per loaf.  
B) \$0.50 per loaf.  
C) \$2.00 per loaf.  
D) \$1.00 per loaf.  
E) cannot tell, insufficient information.
- 10) 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) value added.  
B) profit margin.  
C) costs of production.  
D) accounting profit.  
E) net output.
- 11) Value added is equal to the value of a firm's production minus \_\_\_\_\_
- A) all of its costs of production.  
B) costs of production.  
C) intermediate goods used in production.  
D) labour costs.  
E) investment expenditures.
- 12) Suppose that the government collects \$3 million in taxes, pays \$2 million in Employment Insurance 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.  
E) \$1.5 million.
- 13) The product approach to calculating GDP values government production at \_\_\_\_\_
- A) its cost of production.  
B) its estimated value to society.  
C) the total amount of taxes it collects.  
D) its intermediate costs.  
E) market prices.
- 14) The expenditure approach is calculated as \_\_\_\_\_
- A)  $C + I + G$ .  
B)  $C + I + NX$ .  
C)  $C + I + X$ .

- D)  $C + I + G + X - M$ .
- E) the value approach.

- 15) The expenditure approach to calculating GDP includes 15) \_\_\_\_\_  
A) taxes.  
B) intermediate goods.  
C) net factor payments.  
D) consumption.  
E) wage income.
- 16) Jim's Nursery produces and sells \$1100 worth of flowers. Jim uses no intermediate inputs. He 16) \_\_\_\_\_  
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) \$1800.      B) \$900.      C) \$2000.      D) \$1000.      E) \$1100.
- 17) The expenditure approach to calculating GDP includes 17) \_\_\_\_\_  
A) all forms of taxation.  
B) wage income.  
C) corporate profits.  
D) investment.  
E) the sum of government spending on goods and services, transfer payments, and interest on  
the national debt.
- 18) The income approach to calculating GDP is 18) \_\_\_\_\_  
A) the sum of all incomes earned from production.  
B) the sum of all business income earned.  
C) net of taxes.  
D) the sum of all consumer income earned.  
E) all the spending on goods and services earned by consumer's income.
- 19) The income approach to calculating GDP includes 19) \_\_\_\_\_  
A) government surpluses.  
B) exports of income earned.  
C) investment.  
D) consumer spending.  
E) net interest income.
- 20) The income-expenditure identity is best paraphrased as 20) \_\_\_\_\_  
A) on average, consumers cannot save.  
B) all income is spent.  
C) all profits are used for investment spending.  
D) all spending generates income.  
E) on average, government can spend no more than what it collects in income taxes.
- 21) Inventory investment consists of 21) \_\_\_\_\_  
A) goods in process, raw materials, and purchases of office machinery.  
B) Inventories of finished goods, goods in process, and raw materials.  
C) used finished goods.  
D) construction expenditures, raw materials, and inventories of finished goods.  
E) Raw materials, goods in process, and construction expenditures.
- 22) Additions to inventory is 22) \_\_\_\_\_

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

- 23) To calculate value added, we need to subtract 23) \_\_\_\_\_
- A) the cost of domestic- and foreign-produced intermediate inputs.
  - B) the cost of all goods and services exported.
  - C) only the cost of foreign-produced intermediate inputs.
  - D) total imports.
  - E) only the cost of domestically-produced intermediate inputs.
- 24) GNP means 24) \_\_\_\_\_
- A) the value of output produced by foreigners in Canada.
  - B) the value of all final goods and services produced in an economy during a specific period of time.
  - C) the value of output produced by domestic factors of production, whether or not the production takes place inside Canadian borders.
  - D) the value of services exported by Canada.
  - E) the same output as GDP does.
- 25) GDP and GNP may differ 25) \_\_\_\_\_
- A) because some intermediate good inputs are imported.
  - B) because some income generated by domestic production may be received as income by foreign residents.
  - C) when business cycles are unpredictable and volatile.
  - D) whenever tariff rates become excessively high.
  - E) because some workers are illegal aliens.
- 26) Suppose that the Ford truck plant in Oakville, Ontario, 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 the U.S. The \$1 million in profits 26) \_\_\_\_\_
- A) contributes to both Canadian GDP and Canadian GNP.
  - B) contributes to Canadian GDP, but not Canadian GNP.
  - C) contributes to Canadian GNP, but not Canadian GDP.
  - D) contributes to the expenditure side of GDP only.
  - E) contributes to neither Canadian GDP, nor Canadian GNP.
- 27) In recent Canadian history, 27) \_\_\_\_\_
- A) GNP is the only statistic that is calculated.
  - B) there has been a significant difference between GNP and GDP.
  - C) GNP has been much higher than GDP.
  - D) there is little difference between GNP and GDP in Canada, but substantial differences in the U.S.
  - E) the difference between GNP and GDP has been very volatile.
- 28) Even when measured accurately, GDP may be a misleading measure of economic welfare because it cannot account for 28) \_\_\_\_\_
- A) the value of non-market production and the consequences of an unequal distribution of income.
  - B) the consequences of an unequal distribution of income and the value of government

spending.

- C) the cost of intermediate goods and services.
- D) the value of government spending and how efficiently we produce goods and services.
- E) how efficiently we produce goods and services and the value of non-market production.

- 29) GDP may inaccurately measure the value of aggregate output because it may not properly account for 29) \_\_\_\_\_
- A) all services produced.
  - B) production in the underground economy and the true value of government production.
  - 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.
  - E) the true value of government production and the proper value of purchases and sales of used goods.
- 30) Government expenditures includes 30) \_\_\_\_\_
- A) consumer spending.
  - B) federal defense spending.
  - C) residential spending.
  - D) financial investment.
  - E) inventory investment.
- 31) The components of consumption expenditures include 31) \_\_\_\_\_
- A) donations.
  - B) purchases of used cars and books.
  - C) government consumption.
  - D) investment in stocks and bonds.
  - E) nondurable goods consumption.
- 32) Recently, consumption has comprised approximately 32) \_\_\_\_\_
- A) 15% of GDP.
  - B) 25% of GDP.
  - C) 80% of GDP.
  - D) 40% of GDP.
  - E) 55% of GDP.
- 33) The components of investment expenditures include 33) \_\_\_\_\_
- A) investment in plant and equipment abroad.
  - B) residential investment.
  - C) investment in stocks and bonds.
  - D) investment in health care.
  - E) investment in consumer's education.
- 34) Investment spending is 34) \_\_\_\_\_
- A) equally volatile as GDP.
  - B) less volatile than consumption spending.
  - C) much more volatile than consumption spending.
  - D) equally as volatile as government spending.
  - E) is a larger fraction of GDP than consumption is.
- 35) In recent years, which of the following has comprised less than 5% of GDP? 35) \_\_\_\_\_
- A) investment

- B) exports
- C) imports
- D) net exports
- E) government spending

- 36) Government expenditures does not include 36) \_\_\_\_\_
- A) government investment.
  - B) state and local spending.
  - C) federal defense spending.
  - D) federal non-defense spending.
  - E) transfers.
- 37) When there is rapid inflation, 37) \_\_\_\_\_
- A) government tries to increase growth in real GDP.
  - B) growth in nominal GDP exceeds growth in real GDP.
  - C) growth in real GDP and nominal GDP are roughly equal.
  - D) growth in real GDP exceeds growth in nominal GDP.
  - E) there can never be any growth in nominal GDP.

For the following question(s), suppose that 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

- 38) Year 1 nominal GDP is 38) \_\_\_\_\_
- A) \$310.
  - B) \$200.
  - C) \$390.
  - D) \$450.
  - E) \$270.
- 39) Year 2 nominal GDP is 39) \_\_\_\_\_
- A) \$450.
  - B) \$390.
  - C) \$270.
  - D) \$310.
  - E) \$200.
- 40) Suppose that Year 1 is the base year. Year 2 real GDP is 40) \_\_\_\_\_
- A) \$390.
  - B) \$200.
  - C) \$270.
  - D) \$310.
  - E) \$450.
- 41) Suppose that Year 2 is the base year. Year 1 real GDP is 41) \_\_\_\_\_
- A) \$450.
  - B) \$270.
  - C) \$200.
  - D) \$390.
  - E) \$310.
- 42) Real GDP values current production at 42) \_\_\_\_\_
- A) the best estimate of next year's prices.
  - B) the purchase price not the asking prices of goods and services.
  - C) the average of price levels over the entire sample period.
  - D) base year prices.
  - E) current year prices.
- 43) Construction of chain-weighted real GDP employs the technique of a 43) \_\_\_\_\_
- A) Herfindahl index.

- B) Fisher index.
- C) Inflation rate index.
- D) Gini index.
- E) Body mass index.

- 44) In Canada, real GDP is currently calculated using \_\_\_\_\_ 44) \_\_\_\_\_
- A) a fixed-weighting scheme.
  - B) a variable-weighting scheme.
  - C) constant-inflation scheme.
  - D) an autoregressive scheme.
  - E) a chain-weighting scheme.
- 45) To calculate the change in chain-weighted real GDP from one year to the next, we use \_\_\_\_\_ 45) \_\_\_\_\_
- A) first-year prices.
  - B) base-year prices.
  - C) the percentage change in prices from the first year to the second.
  - D) average prices over the two years.
  - E) second-year prices.
- 46) Suppose that  $g^1$  represents the ratio of year 2 GDP to year 1 GDP, both valued at year 1 prices. \_\_\_\_\_ 46) \_\_\_\_\_  
 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)  $\sqrt{g^2 / g^1}$ .
  - C)  $(g^1 \times g^2)/2$ .
  - D)  $(\sqrt{g^1} + \sqrt{g^2})/2$ .
  - E)  $\sqrt{g^1 \times g^2}$ .
- 47) The implicit GDP price deflator can be defined as \_\_\_\_\_ 47) \_\_\_\_\_
- A) Nominal GDP - Real GDP.
  - B) the consumer price index.
  - C)  $(\text{Real GDP} / \text{Nominal GDP}) * 100$ .
  - D)  $(\text{Nominal GDP} / \text{Real GDP}) * 100$ .
  - E)  $(\text{Nominal GDP} + \text{Real GDP}) / 2$ .

For the following question(s), suppose that 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

- 48) If Year 1 is the base year, the GDP price deflator for Year 2 is approximately \_\_\_\_\_ 48) \_\_\_\_\_
- A) 181.0.
  - B) 126.3.
  - C) 100.0.
  - D) 211.0.
  - E) 131.3.



- 49) If Year 1 is the base year, the CPI for Year 2 is approximately 49) \_\_\_\_\_  
A) 126.3.            B) 181.0.            C) 131.3.            D) 100.0.            E) 211.0.
- 50) In the period 1961-2008, the CPI inflation rate in Canada 50) \_\_\_\_\_  
A) has little impact on monetary policy.  
B) has been equal to the inflation rate in the GDP price deflator.  
C) matters greatly for contracts which are geared to the inflation rate.  
D) has been a good predictor of the inflation rate in the GDP price deflator.  
E) varied very little.
- 51) If a particular measure of real GDP consistently underestimates growth in real GDP, then the 51) \_\_\_\_\_  
rate of inflation as measured by the GDP deflator  
A) cannot be calculated.  
B) will consistently be overestimated.  
C) will be overestimated and underestimated equally often.  
D) is not a good predictor of the inflation rate in the CPI.  
E) will consistently be underestimated.
- 52) When we try to measure real GDP and the price level, if we underestimate the growth in real 52) \_\_\_\_\_  
GDP, we will  
A) sometimes overestimate the rate of inflation.  
B) always overestimate the rate of inflation.  
C) sometimes underestimate the rate of inflation.  
D) always underestimate the rate of inflation.  
E) not be able to measure the rate of inflation.
- 53) Significant problems with measuring real GDP and the price level include 53) \_\_\_\_\_  
A) changes in relative price levels.  
B) changes in consumption patterns.  
C) purchases of used goods.  
D) changes in the number of consumers.  
E) changes in standards of living.
- 54) It is difficult to accurately measure real GDP because 54) \_\_\_\_\_  
A) does not take into account intermediate goods.  
B) it does not include taxes.  
C) it does not include money transfers.  
D) it cannot take into account changes in government policy over time.  
E) does not accurately take into account the introduction of new goods.
- 55) An example of a stock would be 55) \_\_\_\_\_  
A) the amount of money in circulation.  
B) savings.  
C) government spending.  
D) real GDP.  
E) investment.
- 56) An example of a flow would be the 56) \_\_\_\_\_  
A) amount of water in a bathtub.  
B) rate at which the cold water comes out of the tap.  
C) percent of pollutants in tap water.

- D) pressure of water in a pipe.
- E) rate at which water goes down the drain.

57) 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) 200.                      B) 250.                      C) 150.                      D) 350.                      E) 300.

58) Private disposable income is equal to \_\_\_\_\_

A)  $Y + NFP + TR + INT - T$ .

B)  $Y - NFP - R - INT + T$ .

C)  $Y - TR - INT + T$ .

D)  $Y + TR + INT - T$ .

E)  $Y + CA - G$ .

59) 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) 350.                      D) 300.                      E) 250.

60) Suppose that in a given country in a given year, GNP equals \$2000, investment expenditures equal \$200, government expenditures equal \$150, and the current account surplus equals \$50. Consumption expenditures therefore equals \_\_\_\_\_

A) \$140                      B) \$160                      C) \$120                      D) \$230                      E) \$1000.

61) Additions to the nation's capital stock are brought about through \_\_\_\_\_

A) government deficit.

B) investment.

C) the current account surplus.

D) investment and the current account surplus.

E) investment and the government budget surplus.

62) National savings must equal \_\_\_\_\_

A)  $I - NX - NFP$ .

B)  $I + NX + NFP$ .

C)  $Y - NFP + C + G$ .

D)  $T - TR - INT - G$ .

E)  $Y_d - C$ .

63) The unemployment rate equals \_\_\_\_\_

A)  $\frac{\text{number unemployed}}{\text{labour force}}$

B)  $\frac{\text{labour force}}{\text{number unemployed}}$

C)  $\frac{\text{labour force}}{\text{total working age population}}$

D)  $\frac{\text{number unemployed}}{\text{number employed} - \text{number unemployed}}$

E)  $\frac{\text{number unemployed}}{\text{total working age population}}$

64) The participation rate equals \_\_\_\_\_

A)

$\frac{\text{labour force}}{\text{total working age population}}$

- B)  $\frac{\text{labour force}}{\text{number unemployed}}$
- C)  $\frac{\text{number employed}}{\text{total working age population}}$
- D)  $\frac{\text{number unemployed}}{\text{labour force}}$
- E)  $\frac{\text{number unemployed}}{\text{total working age population}}$

- 65) Discouraged workers are 65) \_\_\_\_\_
- A) those who quit working because they are dissatisfied with their jobs.
  - B) those who unmotivated workers who bring down a country's productivity.
  - C) those that only work in the summer months.
  - D) those who have given up looking for work, even though they would like to be employed.
  - E) would like to find a second job to supplement their income, but have not yet found one.
- 66) Problems with interpreting the unemployment rate as a measure of labour market tightness 66) \_\_\_\_\_  
include
- A) dissatisfied workers and discouraged workers.
  - B) discouraged workers and variations in how intensively the unemployed search for work.
  - C) variations in how intensively the unemployed search for work and biases in the CPI.
  - D) biases in the CPI and dissatisfied workers.
  - E) the rental vacancy rate.

**ESSAY. Write your answer in the space provided or on a separate sheet of paper.**

- 67) What is the difference between real and nominal GDP?

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

52) B

53) A

54) E

55) A

56) E

57) B

58) A

59) D

60) B

61) B

62) B

63) A

64) A

65) D

66) B

67) Nominal GDP is the production of goods and services valued at current prices where real GDP is the production of goods and services valued at constant, or base year prices. Nominal GDP can, therefore, be influenced by price and/or quantity changes. Valuing production with base year prices for real GDP provides the basis for comparing quantities of goods and services produced in different years, in the absence of price influences. Real GDP is not affected by changes in price changes and only attempts to measure the volume of goods and services produced.