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ECON122_ECON296_16SPRING

Assignment: CHP 21

1. Ford Motor Co. produces a Focus automobile in its factory in Germany and sells it in India. This transaction is included in
- A. U.S. GDP under exports.
 - B. German GDP under exports.
 - C. Indian GDP under imports.
 - D. both German and U.S. GDP, with fifty percent of the value in each country's exports.

2. Your college bookstore receives a shipment of new economics texts for \$60,000. This transaction is
- A. included in GDP calculation under consumption.
 - B. included in GDP under investment since the bookstore earns a profit by selling these books to students.
 - C. not included in GDP calculation, since books bought by the bookstore are intermediate goods.
 - D. not included in GDP since books are exempt from GDP calculation.

3. GDP calculated by the **expenditure** approach will be (1) _____ the GDP calculated by the **income** approach, because
- A. of net business transfer payments, indirect taxes minus subsidies and surplus of government enterprises.
 - B. the national income and the gross domestic product are two different measurements.
 - C. the dollar value of the expenditure on new goods and services in a year must be equal to the dollar value of the income generated in that year.
 - D. the dollar value of the expenditure on new goods and services in a year is always less than the dollar value of the income generated in that year, since imports are subtracted from the expenditure value.
- (1) equal to
 more than
 less than

4. Imports¹ are subtracted in the expenditure approach to calculating GDP, because
- A. consumption, investment, and government spending are understated as these include expenditures on both domestic and foreign goods.
 - B. consumption, investment, and government spending are overstated as these include expenditures on both domestic and foreign goods.
 - C. U.S. has a negative balance of trade.
 - D. the U.S. economy is not open to foreign trade.

1: Definition

Imports:

U.S. purchases of goods and services from abroad.

5. Utilize the table at right to answer the following questions.

Which of the following is the most likely cause of the negative growth rates in most of the countries provided?

- A. The economies are experiencing additional government stimulus, which is causing GDP growth to be negative.
- B. The economies are exporting more than they are importing, which lowers the level of GDP.
- C. The economies with negative growth are in a recession, which is causing their annual GDP growth to be negative.
- D. All of the above.

Why might China have a positive growth rate, while the rest of the countries are experiencing negative growth?

- A. China's exports are greater than their imports, which helps support positive values for GDP.
- B. Because China is a communist country, their data is incorrect.
- C. China is immune to facing negative GDP growth because their country is so large.
- D. All of the above.

Country	GDP Growth Rate in 2009
Brazil	- 0.2%
Canada	- 2.5%
China	9.1%
France	- 2.6%
Germany	- 4.9%
Japan	- 5.2%
Mexico	- 6.5%
Sweden	- 4.9%
United Kingdom	- 4.9%
United States	- 2.4%

Source: The World Bank

6. Consider the following statement:

"Even if the prices of a large number of goods and services in the economy increase dramatically, the real GDP for the economy can still fall."

This statement is

- A. correct because it is possible for prices to increase on a large number of goods and services but have a decline in the physical quantity of those goods and services produced.
- B. correct because when prices increase on a large number of goods and services, real GDP always falls.
- C. incorrect because when prices increase on a large number of goods and services, real GDP rises.
- D. incorrect because it is not possible for prices to increase on a large number of goods and services if there is a decline in the physical quantity of those goods and services produced.

7. In the base year², nominal GDP

- A. is always greater than real GDP.
- B. is always equal to real GDP.
- C. may be higher or lower than real GDP.

2: Definition

Base year:

The year chosen for weights in a fixed-weight procedure.

8. GDP³ is different from final sales since

- A. final sales ignores changes in inventory, which are included in GDP calculation.
- B. measurements of GDP and final sales are subject to statistical errors.
- C. final sales measures only domestic sales, but GDP considers exports as well.
- D. final sales measures only what the consumers buy, but GDP is the sum total of consumption, investment, government purchases and net exports.

3: Definition

Gross Domestic Product: (GDP):

The measure of the market value of production of all goods and services within a country during a specific period of time.

9. GDP calculations do not directly include the economic costs of environmental damage—for example, global warming and acid rain. Which of the following is a reason why these are not included in GDP?

- A. There is no accurate measurement to account for the costs of environmental damage.
 - B. GDP is a measure of how much output the economy is producing. Global warming is not output and should not be included in GDP.
 - C. There is no consensus that the costs should be included in GDP and there is no consensus on the measurement of environmental damage.
 - D. All of the above.
-

10. The total market value of all final goods and services produced within a given period by factors of production located within a country is

- A. gross national product.
 - B. net national product.
 - C. gross domestic product.
 - D. net national income.
-

11. Gross domestic product measures

- A. the value of all output in the economy.
 - B. the total income of everyone in the economy.
 - C. the total spending of everyone in the economy.
 - D. all of the above
-

12. Which of the following is an example of an intermediate good?

- A. the dough you buy to fix yourself a pizza for dinner
 - B. lumber you buy to build a house for your dog
 - C. the chocolate you buy to make yourself some cookies
 - D. the pizza sauce you purchase to make pizzas to sell for a fund-raiser for an organization you belong to
-

13. Which of the following would NOT be counted in 2013's GDP?

- A. the value of a 2011 boat you purchase from a boat dealer in 2013
 - B. the 2013 salary of a used motorcycle salesperson
 - C. the commissions earned by a real estate agent in selling condominiums built prior to 2013
 - D. the value of a refrigerator manufactured in 2013 but not sold in 2013
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14. Gross national product is the total market value of

- A. all final goods and services produced in a country in a given year, regardless of who owns the resources.
 - B. all final and intermediate goods and services produced in a country, regardless of who owns the resources.
 - C. all final and intermediate goods and service produced by resources owned by a country in a given year.
 - D. all final goods and services produced by resources owned by a country, regardless of where production takes place.
-

15. If no foreign companies produce in a country, but many of the country's companies produce abroad, then

- A. the country's GNP and GDP will tend to be equal.
 - B. the country's GDP will tend to be equal to its domestic income.
 - C. the country's GNP will tend to exceed its GDP.
 - D. the country's GDP will tend to exceed its GNP.
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16. The GDP includes

- A. the value of all intermediate goods and services.
 - B. the value of all final goods and services.
 - C. the value of both intermediate and final goods and services.
 - D. the value of all transactions.
-

17. The equation for GDP using the expenditure approach is

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

18. The single largest expenditure component in GDP is

- A. investment.
 - B. government spending.
 - C. net exports.
 - D. consumption.
-

19. Refer to the information provided in the table at right to answer the question that follows.

Personal consumption expenditures in billions of dollars are

- A. 1,300.
 B. 2,000.
 C. 1,000.
 D. 1,500.

	\$Billions
Durable goods	800
Nonresidential investment	400
Federal purchases of goods	300
Exports	400
State and local purchases of goods	200
Residential investment	50
Services	500
Imports	250
Change in business inventories	- 25
Nondurable goods	700

20. Refer to the information provided in the table at right to answer the question that follows.

The value for gross private domestic investment in billions of dollars is

- A. 450.
 B. 300.
 C. 375.
 D. 425.

	\$Billions
Durable goods	800
Nonresidential investment	400
Federal purchases of goods	300
Exports	400
State and local purchases of goods	200
Residential investment	50
Services	500
Imports	250
Change in business inventories	- 25
Nondurable goods	700

21. Refer to the information provided in the table at right to answer the question that follows.

The value for net exports in billions of dollars is

- A. 150.
 B. 650.
 C. 800.
 D. 250.

	\$Billions
Durable goods	800
Nonresidential investment	400
Federal purchases of goods	300
Exports	400
State and local purchases of goods	200
Residential investment	50
Services	500
Imports	250
Change in business inventories	- 25
Nondurable goods	700

22. Refer to the information provided in the table at right to answer the question that follows.

The value of gross domestic product in billions of dollars is

- A. 3,125.
 B. 3,000.
 C. 3,075.
 D. 3,750.

	\$Billions
Durable goods	800
Nonresidential investment	400
Federal purchases of goods	300
Exports	400
State and local purchases of goods	200
Residential investment	50
Services	500
Imports	250
Change in business inventories	- 25
Nondurable goods	700

23. Refer to the information provided in the table at right to answer the question that follows.

The value of government spending in billions of dollars is

- A. 300.
 B. 500.
 C. 100.
 D. 200.

	\$Billions
Durable goods	800
Nonresidential investment	400
Federal purchases of goods	300
Exports	400
State and local purchases of goods	200
Residential investment	50
Services	500
Imports	250
Change in business inventories	- 25
Nondurable goods	700

24. A company produced 8 dishwasher machines in 2012. The company sold 6 in 2012 and added 2 to its inventories. The market value of the dishwasher machines in 2012 was \$200 per unit. What is the value of this company's output that will be included in the 2012 GDP?

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

25. A farmer buys a new tractor from John Deere to use on her cotton farm.

This tractor is included in GDP as

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

26. In 2012 final sales equal \$200 billion, and the change in business inventories is \$50 billion. GDP in 2012

- A. is \$250 billion.
 B. is \$200 billion.
 C. is \$150 billion.
 D. is \$40 billion.

27. Net investment equals

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

28. The change in capital stock in a period is equal to

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

29. Depreciation is

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

30. When calculating GDP, exports are _____ and imports are _____.

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

31. What should be subtracted from GDP to calculate national income?

- A. indirect taxes
 - B. personal income taxes
 - C. depreciation
 - D. net factor payments to the rest of the world
-

32. What type of tax affects the amount of money you pay for a product?

- A. indirect tax
 - B. income tax
 - C. direct tax
 - D. all of the above
-

33. Depreciation is

- A. added to GNP to get NNP.
 - B. added to national income to get GDP.
 - C. subtracted from GNP to get NNP.
 - D. subtracted from national income to get GDP.
-

34. Refer to the information provided in the table at right to answer the question that follows.

The value for national income in billions of dollars is

- A. 600.
 B. 585.
 C. 850.
 D. 635.

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

35. If receipts of factor income from the rest of the world exceed payments of factor income to the rest of the world, then

- A. GNP equals NNP.
 B. GDP equals GNP.
 C. GNP is greater than GDP.
 D. GDP is greater than GNP.

36. Refer to the information provided in the table at right to answer the question that follows.

The value for GDP in billions of dollars is

- A. 1,050.
 B. 920.
 C. 950.
 D. 910.

	\$Billions
Depreciation	40
Receipts of factor income from rest of world	30
Government purchases	100
Imports	50
Payments of factor income to rest of world	50
Net private domestic investment	200
Personal income taxes	120
Personal consumption expenditures	600
Dividends	20
Exports	60
Amount of national income not going to households	20

37. Refer to the information provided in the table at right to answer the question that follows.

The value for GNP in billions of dollars is

- A. 930.
 B. 900.
 C. 980.
 D. 1,010.

	\$Billions
Depreciation	40
Receipts of factor income from rest of world	30
Government purchases	100
Imports	50
Payments of factor income to rest of world	50
Net private domestic investment	200
Personal income taxes	120
Personal consumption expenditures	600
Dividends	20
Exports	60
Amount of national income not going to households	20

38. Refer to the information provided in the table at right to answer the question that follows.

The value for NNP in billions of dollars is

- A. 970.
 B. 890.
 C. 910.
 D. 940.

	\$Billions
Depreciation	40
Receipts of factor income from rest of world	30
Government purchases	100
Imports	50
Payments of factor income to rest of world	50
Net private domestic investment	200
Personal income taxes	120
Personal consumption expenditures	600
Dividends	20
Exports	60
Amount of national income not going to households	20

39. Refer to the information provided in the table at right to answer the question that follows.

The value for national income in billions of dollars is

- A. 910.
 B. 940.
 C. 970.
 D. 890.

	\$Billions
Depreciation	40
Receipts of factor income from rest of world	30
Government purchases	100
Imports	50
Payments of factor income to rest of world	50
Net private domestic investment	200
Personal income taxes	120
Personal consumption expenditures	600
Dividends	20
Exports	60
Amount of national income not going to households	20

40. Refer to the information provided in the table at right to answer the question that follows.

The value for personal income in billions of dollars is

- A. 960.
 B. 950.
 C. 870.
 D. 890.

	\$Billions
Depreciation	40
Receipts of factor income from rest of world	30
Government purchases	100
Imports	50
Payments of factor income to rest of world	50
Net private domestic investment	200
Personal income taxes	120
Personal consumption expenditures	600
Dividends	20
Exports	60
Amount of national income not going to households	20

41. Refer to the information provided in the table at right to answer the question that follows.

The value for disposable personal income in billions of dollars is

- A. 770.
 B. 990.
 C. 750.
 D. 820.

	\$Billions
Depreciation	40
Receipts of factor income from rest of world	30
Government purchases	100
Imports	50
Payments of factor income to rest of world	50
Net private domestic investment	200
Personal income taxes	120
Personal consumption expenditures	600
Dividends	20
Exports	60
Amount of national income not going to households	20

42. The personal saving rate is

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

43. If disposable personal income is \$400 billion and personal saving is \$8 billion, the personal saving rate is

- A. 1.5%.
 - B. 2%.
 - C. 5%.
 - D. 12%.
-

44. Gross domestic product measured in terms of the prices of a fixed, or base, year is

- A. real GDP.
 - B. current GDP.
 - C. base GDP.
 - D. nominal GDP.
-

45. Nominal GDP is gross domestic product measured

- A. in the prices of a base year.
 - B. in current dollars.
 - C. at a constant output level but at the base-year prices.
 - D. as the difference between the current year's GDP and last year's GDP.
-

46. Real GDP is gross domestic product measured

- A. as the difference between the current year's GDP and last year's GDP.
 - B. at a constant output level but at current prices.
 - C. in current dollars.
 - D. in the prices of a base year.
-

47. If real GDP in 2012 using 2011 prices is higher than nominal GDP of 2012, then

- A. prices in 2012 are higher than prices in the base year.
 - B. nominal GDP in 2012 equals nominal GDP in 2011.
 - C. real GDP in 2012 is larger than real GDP in 2011.
 - D. prices in 2012 are lower than prices in the base year.
-

48. Refer to the information provided in the table below to answer the question that follows.

	Production			Prices		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Good X	60	80	100	\$1.00	\$1.00	\$1.40
Good Y	100	110	130	\$0.80	\$0.90	\$1.00

Assume that this economy produces only two goods: Good X and Good Y. The value for this economy's nominal GDP in year 1 is

- A. \$160.
- B. \$140.
- C. \$180.
- D. \$200.

49. Refer to the information provided in the table below to answer the question that follows.

	Production			Prices		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Good X	60	80	100	\$1.00	\$1.00	\$1.40
Good Y	100	110	130	\$0.80	\$0.90	\$1.00

Assume that this economy produces only two goods: Good X and Good Y. The value for this economy's nominal GDP in year 3 is

- A. \$222.
- B. \$270.
- C. \$204.
- D. \$250.

50. Refer to the information provided in the table below to answer the question that follows.

	Production			Prices		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Good X	60	80	100	\$1.00	\$1.00	\$1.40
Good Y	100	110	130	\$0.80	\$0.90	\$1.00

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

- A. \$202.
- B. \$214.
- C. \$168.
- D. \$179.

51. Refer to the information provided in the table below to answer the question that follows.

	Production			Prices		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Good X	60	80	100	\$1.00	\$1.00	\$1.40
Good Y	100	110	130	\$0.80	\$0.90	\$1.00

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

- A. \$179.
- B. \$214.
- C. \$202.
- D. \$168.

52. Refer to the information provided in the table below to answer the question that follows.

	Production			Prices		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Good X	60	80	100	\$1.00	\$1.00	\$1.40
Good Y	100	110	130	\$0.80	\$0.90	\$1.00

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

- A. 1.
- B. 111.
- C. 100.
- D. 110.

53. Refer to the information provided in the table below to answer the question that follows.

	Production			Prices		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Good X	60	80	100	\$1.00	\$1.00	\$1.40
Good Y	100	110	130	\$0.80	\$0.90	\$1.00

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

- A. 100.
- B. 93.9.
- C. 106.5.
- D. 179.

54. Refer to the information provided in the table below to answer the question that follows.

	Production			Prices		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Good X	60	80	100	\$1.00	\$1.00	\$1.40
Good Y	100	110	130	\$0.80	\$0.90	\$1.00

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

- A. 6.5%.
- B. -5.5%.
- C. -6.1%.
- D. 79%.

55. The GDP deflator is the

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

56. If the GDP deflator is greater than 100, then

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

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

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

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

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

59. Legalizing all forms of illegal activities would

- A. reduce both the underground economy and measured GDP.
- B. reduce the size of the underground economy and increase measured GDP.
- C. increase the size of the underground economy and reduce measured GDP.
- D. reduce measured GDP.

60. The base year of an index is

- A. the year chosen for the weights in a fixed weight procedure.
- B. the last year of the index.
- C. the first year of the index.
- D. the year currently being calculated.