

Chapter 2

The Language of Macroeconomics—The National Income Accounts

1. The most fundamental measure of an economy's health is
 - a) Income per person
 - b) the welfare of society as a whole**
 - c) the consumer price index
 - d) the relative value of the economy's currency on the world market
 - e) the trade deficit or surplus

2. Real GDP is a better measure of economic development than nominal GDP because
 - a) nominal GDP includes only tangible goods, while real GDP also includes intangible output such as consulting services
 - b) nominal GDP is what could be produced if production were perfectly efficient, whereas real GDP is a measure of what is actually produced
 - c) real GDP includes foreign production by US firms, but nominal GDP doesn't
 - d) nominal GDP rises with inflation, but real GDP doesn't**
 - e) nominal GDP double-counts intermediate goods, while real GDP counts only final goods

3. United States GDP in constant dollars refers to
 - a) the output produced within the U.S., valued in base year prices**
 - b) output produced by American citizens, valued using purchasing power parity
 - c) output produced by American-based firms, valued at current market exchange rates
 - d) nominal GDP after adjusting for the depreciation of capital
 - e) the amount of income each U.S. citizen would get if GDP were divided equally across the population

The next five questions refer to the following hypothetical economy

In one year, an economy produces 100 units of capital goods, which sell for \$30 each, and 200 units of consumer goods, which sell for \$10 each. In the second year, 150 units of capital are produced, and sold for \$20 each, while 220 units of consumer goods are produced and sold for \$20 each. In the third year, 160 units of capital are sold for \$30 each, and 200 units of consumer goods are sold for \$20 each.

4. Nominal GDP in the three years is
 - a) 300 in year one, 370 in year two, and 360 in year three
 - b) 2500 in year one, 3700 in year two, and 4400 in year three
 - c) 6000 in year one, 7500 in year two, and 9000 in year three
 - d) 5000 in year one, 7400 in year two, and 8800 in year three**
 - e) 40 in year one, 40 in year two, and 50 in year three

5. Using chain weights, between years one and two real GDP grew by
 - a) 48%
 - b) 40%
 - c) 34%
 - d) 29%**
 - e) 23%

6. Using chain weights, between years two and three real GDP
- increased by 19%
 - increased by 3%
 - remained constant
 - decreased by 2%**
 - decreased by 5%
7. Using chain-weighted prices with year one as the base year, real GDP in years one, two, and three respectively was
- 5000, 6428, 6299**
 - 5000, 6700, 7200
 - 6000, 6800, 7400
 - 6320, 8900, 8800
 - 6083, 8070, 7909
8. If year one is taken as the base year, the GDP deflator in years two and three is
- 1.0 in year two and 1.1 in year three
 - 1.0 in year two and 2.0 in year three
 - 1.23 in year two and 1.12 in year three
 - 1.5 in year two and 1.10 in year three
 - 1.10 in year two and 1.29 in year three**
9. Which of the following would be an invalid measure of nominal GDP?
- wages + interest payments + corporate profits + rent
 - consumption + investment + government purchases + exports – imports
 - the cost of resources + the value added by intermediate industries + the value added by retailers
 - coins + currency + bank account balances**
 - all of the above
10. In most industrial economies, the largest component of national income is
- wages and salaries**
 - corporate profits
 - interest on bank accounts and bonds
 - rental income
 - proprietors' income from non-corporate businesses
11. The shares of national income paid to labor and capital owners respectively are about
- 10% and 90%
 - 40% and 60%
 - 50% and 50%
 - 70% and 30%**
 - 85% and 15%

The next two questions refer to the following hypothetical economy.

A nation produces 1000 units of output. It sells 800 of these to domestic consumers at a price of \$4 per unit, and exports the remaining 200 units to countries overseas at a price of \$5 per

unit. The country also imports 100 units of another good at a price of \$6 per unit. There is neither investment nor government expenditure in this economy.

12. Aggregate demand for the output of this country is
- a) 4200
 - b) 3200
 - c) 3600
 - d) 2800**
 - e) 3800
13. This country's gross domestic product, as measured by expenditure, is
- a) 3600**
 - b) 3900
 - c) 3700
 - d) 2500
 - e) 2700
14. If both imports (M) and exports (X) are nonzero, which of the following accurately reflects a national income accounting measure?
- a) aggregate supply = $Y + M$**
 - b) aggregate demand = $C + I + G + X - M$
 - c) $Y = C + I + G + X$
 - d) aggregate supply = $Y - X + M$
 - e) $Y = \text{aggregate supply} - \text{aggregate demand}$
15. In the national income accounts, which of the following would be treated as an investment?
- a) The production of goods which the firm fails to sell**
 - b) The purchase of undeveloped land by a realtor
 - c) The purchase of ten shares of corporate stock by a household
 - d) A student purchasing a college education
 - e) A worker depositing funds into an individual retirement account at a bank
16. Firms' unsold inventory
- a) is not counted in GDP because it is excluded from consumption
 - b) is counted as investment**
 - c) is purchased by the government
 - d) is equal to the difference between imports and exports
 - e) is the difference between real and nominal GDP
17. Countries A and B have the same levels of consumption, investment, and government purchases, but country B sells twice as many exports as buys twice as many imports as country A. Which country must have a larger GDP?
- a) Country A
 - b) Country B
 - c) The GDP of country A must equal the GDP of country B
 - d) The answer depends on whether country A has positive or negative net exports**
 - e) The answer depends on whether country A's imports are greater than its

domestic consumption

18. Which of the following are included in a nation's capital stock?
- a) its land and natural resources
 - b) its buildings and machinery**
 - c) its money supply, excluding foreign currency
 - d) durable consumer appliances
 - e) all of the above
19. The largest component of U.S. GDP is
- a) the government's budget surplus
 - b) capital investments in physical assets
 - c) consumption expenditures**
 - d) the national debt
 - e) dollar-denominated exports of U.S. goods
20. If a U.S.-owned manufacturing firm closes its American plant and moves its production facilities and American employees to Canada,
- a) U.S. GDP falls and U.S. GNI rises
 - b) U.S. GNP falls, and Canadian GNI rises
 - c) Canadian GDP rises and Canadian GNI is unchanged**
 - d) Real U.S. GDP rises but nominal U.S. GDP falls
 - e) None of the above
21. Suppose 1 million Germans work as consultants in Spain and repatriate their earnings back to Germany. Then the value of their services counts
- a) as Spanish exports and German imports
 - b) as part of Germany's foreign direct investment in Spain
 - c) as part of Spain's GNI and Germany's GDP
 - d) as part of Germany's GNI and Spain's GDP**
 - e) as a transfer of foreign aid from Germany to Spain
22. Most of the world's economic output is produced by
- a) China and Russia
 - b) China and Japan
 - c) the U.S. and Japan
 - d) the U.S. and the European Union**
 - e) Russia and the European Union
23. The Canadian economy produces only about half as much output as the French economy, yet Canada's GDP per capita is roughly equal to that of France. This is because
- a) the French accounting method computes only value-added, to avoid double-counting
 - b) France has twice the population of Canada**
 - c) one French franc is worth two Canadian dollars
 - b) each Canadian worker produces, on average, about twice as much output per hour as a French worker
 - e) Canada exports about 50 % of its output to France

24. Purchasing Power Parity

- a) is an income redistribution program designed to give poorer U.S. citizens more equality with the rich
- b) is an economic principle which states that competing stores will charge the same price for identical goods
- c) is the principle that political contributions by corporations and wealthy individuals buy influence with powerful leaders
- d) occurs when those in high tax brackets get the same after-tax income as those in low tax brackets
- e) **is a set of exchange rates used to compare GDP across nations**

25. Comparing countries' income per head using Purchasing Power Parity exchange rates rather than market exchange rates

- a) Exaggerates the difference between rich and poor countries rich countries have greater purchasing power
- b) Adjusts for differences in country size
- c) Makes income per head calculations more volatile over time
- d) **Reduces the difference between rich and poor countries because in poor countries a given amount of dollars purchases more goods and services.**
- e) All of the above

26. In practice initial estimates of GDP

- a) are never revised
- b) are only revised several years after the initial release
- c) are subject to very small revisions that do not influence the measurement of economic growth
- d) **are subject to significant revision that can alter measured growth**
- e) are so heavily revised that they give no useful information whatsoever which explains why nobody trusts official statistics.

27. The Human Development Index (HDI) compiled by the United Nations

- a) is used by anthropologists to track the evolution of human beings
- b) **measures standards of living by taking into account output, education, and life expectancy**
- c) facilitates interpersonal comparisons of utility by asking citizens how satisfied they are
- d) is an employment/unemployment index, or ratio, used to evaluate the progress of non-market economies in becoming market-oriented
- e) is the name international agencies give to real gross domestic product

28. Which of the following will result in an increase in measured GDP

- a) Buying a second hand car
- b) Spending a month making a computer out of spare parts you had of old computers
- c) Spending all day tidying up your house so you will get a better price for it when potential buyers visit
- d) **Giving up cooking for yourself and going out to eat every evening**
- e) all of the above

29. In general an increase in income of, say, \$1000

- a) Increases the welfare of rich and poor equally

- b) Increases the welfare of the rich more than the poor
- c) Increases the welfare of the poor more than the rich**
- d) Has no impact on the welfare of rich or poor
- e) Decreases the welfare of the very rich

30. CO₂ emissions are not included as a negative element in conventional GDP calculations because

- a) They do not have a negative impact on current or future welfare
- b) There is potential error in their measurement
- c) They do not have a direct effect on current income**
- d) They are too small to be worth including
- e) They are already captured through other elements