

Chapter 24 Review questions

Student: _____

1. Which of the following is a primary use for national income accounts?
 - A) To analyze the environmental cost of economic growth
 - B) To assess the economic efficiency of specific industries in the economy
 - C) To measure changes in the value of production and income in the economy
 - D) To determine whether there is a fair and equitable distribution of income in the economy
2. GDP is the market value of:
 - A) Resources (land, labor, capita, and entrepreneurship) in an economy in a given year
 - B) All final goods and services produced in an economy in a given year
 - C) Consumption and investment spending in an economy in a given year
 - D) All output produced and accumulated over the years
3. Adding the market value of all final and intermediate goods and services in an economy in a given year would result in:
 - A) The calculation of GDP for that year
 - B) The calculation of NDP for that year
 - C) An amount less than GDP for that year
 - D) An amount greater than GDP for that year
4. An example of intermediate goods would be:
 - A) Bricks bought by a homeowner for constructing a patio
 - B) Sacks of groceries bought by a dentist for his family
 - C) Cars bought by a car-rental company
 - D) Paper and ink bought by a publishing company
5. All of the following are examples of intermediate goods, *except*:
 - A) Flour bought by a bakery
 - B) Oven bought by a bakery
 - C) Office supplies bought by an accounting firm
 - D) Gasoline bought by a trucking company
6. Which of the following is a private transfer payment?
 - A) Unemployment benefits received by newly laid-off workers
 - B) The sale of used clothing at a thrift store
 - C) The Social Security benefits sent to a retired worker
 - D) A check for \$250 sent by a parent to a daughter at college
7. Which of the following is included in GDP?
 - A) Welfare payments received by some households
 - B) Fees received by stockbrokers
 - C) Cash gifts from relatives during the holidays
 - D) Payments received from selling stocks in one's portfolio
8. The two ways of looking at GDP are the:
 - A) Output approach and expenditures approach
 - B) Income approach and saving approach
 - C) Expenditures approach and income approach
 - D) Output approach and consumption approach

9. Which of the following is not a component of GDP in the expenditures approach?

- A) Government purchases
- B) Workers' wages and other compensation
- C) Gross private domestic investment
- D) The difference between exports and imports

10. Which of the following is not included in personal consumption expenditures?

- A) New furniture and appliances bought by homeowners
- B) Payments for cable and Internet services to homes
- C) Purchases of mutual funds by consumers
- D) Food purchased at supermarkets

11. Money spent on the purchase of a *new* house is included in the GDP as a part of:

- A) Household expenditures on durable goods
- B) Personal consumption expenditures
- C) Personal saving
- D) Gross domestic private investment

12. Business inventories increase when firms produce:

- A) More than they sell, and the inventory increase is added to GDP
- B) Less than they sell, and the inventory increase is added to GDP
- C) More than they sell, and the inventory increase is subtracted from GDP
- D) Less than they sell, and the inventory increase is subtracted from GDP

13. Government purchases in national income accounts would include payments for:

- A) Social Security checks to retirees
- B) Salaries for current U.S. military officers
- C) Public assistance for welfare recipients
- D) Unemployment benefits

14. Net exports is a *positive* number when:

- A) A nation's exports of goods and services are increasing
- B) A nation exports goods and services to other nations
- C) A nation's exports of goods and services exceed its imports
- D) A nation's exports of goods and services fall short of its imports

The following data about a hypothetical economy are in billions of dollars.

Personal Consumption Expenditures	\$4,500
Consumption of Fixed Capital	150
Gross Private Domestic Investment	800
Government Purchases	950
Exports	65
Imports	85

15. Refer to the above data. GDP in this economy is:

- A) \$6,080 billion
- B) \$6,230 billion
- C) \$6,380 billion
- D) \$6,400 billion

16. The expenditures or output approach to GDP measures it by summing up:

- A) Compensation of employees, rents, interest, dividends, undistributed corporate profits, proprietors' income, indirect business taxes paid, consumption of fixed capital, and net foreign factor income earned in the United States
- B) Compensation of employees, rents, interest, dividends, corporate profits, proprietors' income, and indirect business taxes, and subtracting the consumption of fixed capital
- C) The total spending for consumption, investment, net exports, and government purchases
- D) The total spending for consumption and government purchases, but subtracting public and private transfer payments

(The following national income data are in billions of dollars.)

Consumption of Fixed Capital	\$60
Disposable Income	\$200
Net Private Domestic Investment	40
US Imports	15
National Income	300
Personal Taxes	31
Net Exports	9
Gross Private Domestic Investment	55
Net Foreign Factor Income	10
Statistical Discrepancy	0

17. Refer to the above data. United States exports are:

- A) \$9 billion
- B) \$16 billion
- C) \$24 billion
- D) \$28 billion

(The following national income data are in billions of dollars.)

Consumption of Fixed Capital	\$25
Government Purchases	315
US Imports	260
Personal Taxes	45
Transfer Payments	247
US Exports	249
Personal Consumption Expenditures	475
Net Foreign Factor Income	5
Gross Private Domestic Investment	300
Taxes on Production and Imports	245
Undistributed Corporate Profits	60
Social Security Contributions	240
Corporate Income Taxes	65
Statistical Discrepancy	40

18. Refer to the above data. Gross domestic product is:

- A) \$1,049 billion
- B) \$1,079 billion
- C) \$1,090 billion
- D) \$1,101 billion

19. The following are incomes earned but not received by the nation's households, *except*:

- A) Corporate income taxes
- B) Social security contribution
- C) Transfer payments
- D) Undistributed corporate profits

20. If the price index is 130, this means that:

- A) Prices are 130 percent higher than in the base year
- B) Prices are .13 times that in the base year
- C) Prices are 30 percent higher than in the base year
- D) Nominal GDP must be inflated to determine the real GDP

21. "GDP price index" measures changes in the:

- A) Value of final output produced in the nation
- B) Prices of the output produced in the nation
- C) Amount of resources available in the nation
- D) Cost of resources employed in the nation

22. The base year is 2005, and the GDP price index in 2004 is 92.0. This implies that the:

- A) Output in 2005 was higher than in 2004
- B) Prices in 2005 was higher than in 2004
- C) Output in 2005 was lower than in 2004
- D) Prices in 2005 was lower than in 2004

23. Consumers in an economy buy only three general types of products, A, B, and C. Changes in the prices of these items over a period are shown below:

Product	Quantity	Average Price Per Unit	
		Year 1	Year 2
A	10	\$10	\$8
B	15	20	22
C	8	50	55

Using year 1 as the base year, the country's price index in year 2 is:

- A) 100.0
- B) 103.9
- C) 105.2
- D) 106.3

24. In an economy, the total expenditures for a market basket of goods in year 1 (the base year) was \$5,000 billion. In year 2, the total expenditure for the same market basket of goods was \$5,500 billion. What was the GDP price index for the economy in year 2?

- A) 100
- B) 110
- C) 115
- D) 120

(GDP figures are in billions of dollars.)

Year	Nominal GDP	Real GDP	Price Index
1	5,200	4,800	
2	5,500		112
3	5,740	5,000	

25. Refer to the above table. What is the GDP price index in Year 1?

- A) 105.2
- B) 108.3
- C) 109.6
- D) 111.5

26. Refer to the above table. What was real GDP in Year 2?

- A) \$4,820 billion
- B) \$4,875 billion
- C) \$4,911 billion
- D) \$5,320 billion

27. GDP measured using current prices is called:

- A) Nominal GDP
- B) Real GDP
- C) Constant GDP
- D) Deflated GDP

Price and Output data over a five-year period for an economy that produces only one good. Assume that year 2 is the base year.

Year	Units of Output	Price Per Unit
1	8	\$2
2	10	3
3	15	4
4	18	5
5	20	6

28. Refer to the above data. If year 2 is the base year, the price index for year 3 is:

- A) 120
- B) 125
- C) 133
- D) 150

29. Refer to the above data. In year 4, nominal GDP would be:

- A) \$60
- B) \$90
- C) \$120
- D) \$316

30. Refer to the above data. If year 2 is the base year, then Real GDP in year 5 is:

- A) \$120
- B) \$90
- C) \$60
- D) \$30

Chapter 24 Review questions **Key**

1. C
2. B
3. D
4. D
5. B
6. D
7. B
8. C
9. B
10. C
11. D
12. A
13. B
14. C
15. B
16. C
17. C
18. B
19. C
20. C
21. B
22. B
23. D
24. B
25. B
26. C
27. A
28. C
29. B

Chapter 24 Review questions Summary

<u>Category</u>	<u># of Questions</u>
AACSB: Analytic	28
AACSB: Reflective Thinking	2
Blooms: Level 1 Remember	1
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Blooms: Level 1 Remember	1
Blooms: Level 1 Remember	1
Blooms: Level 1 Remember	1
Blooms: Level 1 Remember	1
Blooms: Level 2 Understand	1
Blooms: Level 2 Understand	1
Blooms: Level 2 Understand	2
Blooms: Level 3 Apply	1
Blooms: Level 3 Apply	1
Blooms: Level 3 Apply	1
Blooms: Level 3 Apply	1
Blooms: Level 3 Apply	1
Blooms: Level 3 Apply	1
Blooms: Level 3 Apply	1
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Blooms: Level 3 Apply	3
Difficulty: 1 Easy	18
Difficulty: 2 Medium	8
Difficulty: 3 Hard	4
Learning Objective: 24-01 Explain how gross domestic product (GDP) is defined and measured.	18
Learning Objective: 24-02 Describe the relationships among GDP; net domestic product; national income; personal income; and disposable income.	1
Learning Objective: 24-03 Discuss the nature and function of a GDP price index; and describe the difference between nominal GDP and real GDP.	11
McConnell - Chapter 24	35
Topic: Assessing the Economy's Performance	1
Topic: Gross Domestic Product	7
Topic: Nominal GDP versus Real GDP	11
Topic: Other National Accounts	1
Topic: The Expenditures Approach	10

