

Principles of Macroeconomics Homework Assignment 5

Multiple Choice

- _____ 1. Gross domestic product serves as a measure of two things:
- the total spending of everyone in the economy and the total saving of everyone in the economy.
 - the total income of everyone in the economy and the total expenditure on the nation's output of goods and services.
 - the value of the nation's output of goods and services for domestic citizens and the value of the nation's output of goods and services for the rest of the world.
 - the nation's saving and the nation's investment.
- _____ 2. GDP is defined as
- the market value of all goods and services produced within a country in a given period of time.
 - the market value of all goods and services produced by the citizens of a country, regardless of where they are living in a given period of time.
 - the market value of all final goods and services produced within a country in a given period of time.
 - the market value of all final goods and services produced by the citizens of a country, regardless of where they are living, in a given period of time.
- _____ 3. In computing GDP, market prices are used to value final goods and services because
- market prices reflect the values of goods and services.
 - market prices do not change much over time, so it is easy to make comparisons between years.
 - if market prices are out of line with how people value goods, the government sets price ceilings and price floors.
 - None of the above is correct; market prices are not used in computing GDP.
- _____ 4. Grapes are
- always counted as an intermediate good.
 - counted as an intermediate good if they are used to produce another good such as wine.
 - counted as an intermediate good only if they are consumed.
 - counted as an intermediate good, whether they are used to produce another good or consumed.
- _____ 5. One bag of flour is sold for \$1.50 to a bakery, which uses the flour to bake bread that is sold for \$4.00 to consumers. A second bag of flour is sold to a consumer in a grocery store for \$2.00. Taking these three transactions into account, what is the effect on GDP?
- GDP increases by \$1.50.
 - GDP increases by \$3.50.
 - GDP increases by \$6.00.
 - GDP increases by \$7.50.
- _____ 6. A branch of the Ford Corporation (U.S.A), located in Argentina, finished assembly 100 new cars which were worth \$20,000,000. As a result of this business activity,
- both U.S. GDP and U.S. GNP increase.
 - U.S. GDP decreases while U.S. GNP increases.
 - U.S. GDP is unaffected; but U.S. GNP increases.
 - both U.S. GDP and U.S. GNP are unaffected.

- _____ 7. Darla, a Canadian citizen, works only in the United States. The income she makes is
- included in both U.S. GDI and Canada GDI.
 - included in U.S. GDI, but it is not included in Canada GDI.
 - included in Canada GDI, but it is not included in U.S. GDI.
 - included in neither U.S. GDI nor Canada GDI.
- _____ 8. Which of the following items is included in 2009's GDP?
- the sales of stocks and bonds in 2009.
 - the sales of new cars in 2009.
 - The sales of used cars in 2009.
 - The sales of both new and used cars in 2009.
- _____ 9. The component of GDP called *consumption* consists of
- household spending on durable goods, but not household spending on nondurable goods or on services.
 - household spending on durable and nondurable goods, but not household spending on services.
 - household spending on durable and nondurable goods as well as household spending on services.
 - spending by households and business firms on durable and nondurable goods as well as spending by households and business firms on services.
- _____ 10. Which of the following examples of household spending are categorized as investment rather than consumption?
- expenditures on new housing
 - expenditures on intangibles items such as medical care
 - expenditures on durable goods such as automobiles and refrigerators
 - All of the above are correct.
- _____ 11. After the terrorist attacks on September 11, 2001, governments within the United States raised expenditures to increase security at airports. These purchases of goods and services are
- not included in GDP since they do not represent production.
 - not included in GDP since the government will have to raise taxes to pay for them.
 - included in GDP since government expenditures are included in GDP.
 - included in GDP only to the extent that the federal government, rather than state or local governments, paid for them.
- _____ 12. If net exports is a negative number for a particular year, then
- the value of firms' inventories declined over the course of the year.
 - consumption exceeded the sum of investment and government purchases during the year.
 - the value of goods sold to foreigners exceeded the value of foreign goods purchased during the year.
 - the value of foreign goods purchased exceeded the value of goods sold to foreigners during the year.
- _____ 13. In a certain economy in 2007, government spending was amounted to \$1,100; consumption amounted to \$3,000; investment was \$1,100; and the value of imports exceeded the value of exports by \$200. It follows that GDP for 2007 was
- \$5,200.
 - \$5,000.
 - \$5,400.
 - \$5,600.

Table 23-3

Prices and Quantities

Year	Price of Sandwiches	Quantity of Sandwiches	Price of Magazines	Quantity of Magazines
2006	\$4.00	100	\$2.00	180
2007	\$5.00	120	\$2.50	200
2008	\$6.00	150	\$3.50	200

- _____ 14. **Refer to Table 23-3.** Nominal GDP is
- \$680 for 2006, \$880 for 2007, and \$1,200 for 2008.
 - \$760 for 2006, \$880 for 2007, and \$1,000 for 2008.
 - \$760 for 2006, \$1,100 for 2007, and \$1,600 for 2008.
 - \$960 for 2006, \$1,280 for 2007, and \$1,300 for 2008.
- _____ 15. **Refer to Table 23-3.** Using 2006 as the base year, for 2007,
- real GDP is \$880 and the GDP deflator is 80.
 - real GDP is \$880 and the GDP deflator is 125.
 - real GDP is \$950 and the GDP deflator is 95.
 - real GDP is \$950 and the GDP deflator is 116.
- _____ 16. A student has spent the following amounts during May 2009: tuition \$1000; new textbooks \$80; used textbooks \$50; a used car \$10,000, gasoline \$300; and fast food \$40. How would the student's spending affect GDP?
- GDP would increase by \$11,470.
 - GDP would increase by \$11,420.
 - GDP would increase by \$1,420.
 - GDP would increase by \$1,470.
- _____ 17. Real GDP is the production of final goods and services valued at
- current year prices.
 - constant prices.
 - expected future prices.
 - the ratio of current year prices to constant year prices.
- _____ 18. Suppose in a particular year, the U.S. Federal government spends \$80 billion on highway and bridge construction; Georgia state government spends \$326 million on highway and bridge; the total collection of tolls from some of these roads and bridges is \$200 million. As a result,
- GDP increases by \$80,126 million.
 - GDP increases by \$80,326 million.
 - GDP increases by \$80,526 million.
 - GDP increases by \$606 million.
- _____ 19. If a small country has current nominal GDP of \$25 billion and the GDP deflator is 125, what is real GDP?
- \$312.5 billion
 - \$207.5 billion
 - \$31.25 billion
 - \$20 billion
- _____ 20. Tyler and Camille both live in Oklahoma. A new-car dealer in Oklahoma bought a new car from the manufacturer for \$17,000 and sold it to Tyler for \$20,000. Later that year, Tyler sold the car to Camille for \$15,000. By how much did these transactions contribute to U.S. GDP for the year?
- \$17,000
 - \$20,000
 - \$35,000
 - \$52,000

