

**Principles of Macroeconomics
Homework Assignment 5
Answer Sheet**

Name _____ Class Day/Time _____

Questions of this homework are in the next few pages. Please find the answer of the questions and fill in the blanks below. Turn in this answer sheet on the due date in class. Keep the remaining pages to study.

1. _____

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Principles of Macroeconomics Homework Assignment 5

Name _____

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 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 total income of everyone in the economy and the total expenditure on the country's final goods and services.
 - 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 final 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 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 do not change much over time, so it is easy to make comparisons between years.
 - market prices reflect the values of goods and services.
 - 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 only if they are consumed.
 - counted as an intermediate good if they are used to produce another good such as wine.
 - 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 \$6.00.
 - GDP increases by \$3.50.
 - GDP increases by \$1.50.
 - GDP increases by \$7.50.
- _____ 6. A branch of the Ford Corporation (U.S.A), located in Argentina, finished assembling 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.
 - both U.S. GDP and U.S. GNP are unaffected.
 - U.S. GDP is unaffected; but U.S. GNP increases.

- _____ 7. Darla, a Canadian citizen, works only in the United States. The income she makes is
- included in U.S. GDI, but it is not included in Canada GDI.
 - included in both U.S. GDI and 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 are included in 2014's GDP?
- The sales of new cars in 2014.
 - The sales of stocks and bonds in 2014.
 - The sales of used cars in 2014.
 - The sales of both new and used cars in 2014.
- _____ 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 as well as household spending on services.
 - household spending on durable and nondurable goods, but not 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 intangibles items such as medical care.
 - Expenditures on new housing.
 - 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 only to the extent that the federal government, rather than state or local governments, paid for them.
 - included in GDP since government expenditures are included in GDP.
- _____ 12. If net exports is a negative number for a particular year, then
- the value of foreign goods purchased exceeded the value of goods sold to foreigners during 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 firms' inventories declined over the course of 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.
 - \$5,600.
 - \$5,400.
 - \$5,000.

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, \$1,100 for 2007, and \$1,600 for 2008.
 - \$760 for 2006, \$880 for 2007, and \$1,000 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 \$950 and the GDP deflator is 95.
 - real GDP is \$880 and the GDP deflator is 125.
 - real GDP is \$950 and the GDP deflator is 116.
- _____ 16. A student has spent the following amounts during June 2015: 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 \$1,470.
 - GDP would increase by \$1,420.
- _____ 17. Real GDP is the production of final goods and services valued at
- current year prices.
 - expected future prices.
 - constant 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 \$606 million.
 - GDP increases by \$80,526 million.
- _____ 19. If a small country has a current nominal GDP of \$25 billion and the GDP deflator is 125, real GDP is
- \$20 billion
 - \$207.5 billion
 - \$31.25 billion
 - \$312.5 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
 - \$35,000
 - \$20,000
 - \$52,000