Fall 2012
Chapter 10 Practice Questions

1. Which of the following statements about GDP is correct?
   a. GDP measures two things at once: the total income of everyone in the economy and the unemployment rate of the economy’s labor force.
   b. Money continuously flows from households to government and then back to households, and GDP measures this flow of money.
   c. GDP is to a nation’s economy as household income is to a household.
   d. All of the above are correct.
   ANS: C DIF: 2 REF: 10-1

2. For an economy as a whole,
   a. wages must equal profit.
   b. consumption must equal saving.
   c. income must equal expenditure.
   d. the number of buyers must equal the number of sellers.
   ANS: C DIF: 2 REF: 10-1

3. If an economy’s GDP falls, then it must be the case that the economy’s
   a. income falls and saving rises.
   b. income and saving both fall.
   c. income falls and expenditure rises.
   d. income and expenditure both fall.
   ANS: D DIF: 2 REF: 10-1

4. GDP is defined as
   a. the market value of all goods and services produced within a country in a given period of time.
   b. 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.
   c. the market value of all final goods and services produced within a country in a given period of time.
   d. 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.
   ANS: C DIF: 1 REF: 10-2

5. To compute GDP, we
   a. add up the wages paid to all workers.
   b. add up the costs of producing all final goods and services.
   c. add up the market values of all final goods and services.
   d. take the difference between the market values of all final goods and services and the costs of producing those final goods and services.
   ANS: C DIF: 2 REF: 10-2
6. In computing GDP, market prices are used to value final goods and services because
   a. market prices do not change much over time, so it is easy to make comparisons between years.
   b. market prices reflect the values of goods and services.
   c. if market prices are out of line with how people value goods, the government sets price ceilings and price floors.
   d. None of the above is correct; market prices are not used in computing GDP.
ANS: B  DIF: 2  REF: 10-2

7. Which of the following is correct?
   a. The market value of rental housing services is included in GDP, but the market value of owner-occupied housing services is not.
   b. The market value of owner-occupied housing services is included in GDP, but the market value of rental housing services is not.
   c. The market values of both owner-occupied housing services and rental housing services are included in GDP.
   d. Neither the market value of owner-occupied housing services nor the market value of rental housing services is included in GDP.
ANS: C  DIF: 2  REF: 10-2

8. GDP excludes most items that are produced and sold illegally and most items that are produced and consumed at home because
   a. the quality of these items is not high enough to contribute value to GDP.
   b. measuring them is so difficult.
   c. the government wants to discourage the production and consumption of these items.
   d. these items are not reported on income tax forms.
ANS: B  DIF: 2  REF: 10-2

9. Ralph pays someone to mow his lawn, while Mike mows his own lawn. Regarding these two practices, which of the following statements is correct?
   a. Only Ralph’s payments are included in GDP.
   b. Ralph’s payments as well as the estimated value of Mike’s mowing services are included in GDP.
   c. Neither Ralph’s payments nor the estimated value of Mike's mowing services is included in GDP.
   d. Ralph’s payments are definitely included in GDP, while the estimated value of Mike’s mowing services is included in GDP only if Mike voluntarily provides his estimate of that value to the government.
ANS: A  DIF: 2  REF: 10-2

10. Marijuana is an illegal good and broccoli is a legal good. Which of the following statements is true?
    a. Darin grows and sells marijuana to Lisa. When Darin and Lisa get married, GDP falls.
    b. Darin grows and sells marijuana to Lisa. When Darin and Lisa get married, GDP rises.
    c. Darin grows and sells broccoli to Lisa. When Darin and Lisa get married, GDP falls.
    d. Darin grows and sells broccoli to Lisa. When Darin and Lisa get married, GDP rises.
ANS: C  DIF: 2  REF: 10-2
11. Grapes are
   a. always counted as an intermediate good.
   b. counted as an intermediate good only if they are used to produce another good, such as wine.
   c. counted as an intermediate good only if they are consumed.
   d. counted as an intermediate good, whether they are used to produce another good or consumed.
ANS: B   DIF: 2   REF: 10-2

12. The total sales of all firms in the economy for a year
   a. equals GDP for the year.
   b. is larger than GDP for the year.
   c. is smaller than GDP for the year.
   d. Any of the above is possible.
ANS: B   DIF: 3   REF: 10-2

13. Which of the following domestically produced items is not included in GDP?
   a. a bottle of shampoo
   b. a hairdryer
   c. a haircut
   d. All of the above are included in GDP.
ANS: D   DIF: 2   REF: 10-2

14. In the equation \( Y = C + I + G + NX \),
   a. \( Y \) represents the economy’s total expenditure.
   b. \( C \) represents household expenditures on services and durable goods.
   c. all of the variables are always positive numbers.
   d. All of the above are correct.
ANS: A   DIF: 2   REF: 10-3

15. Consumption consists of spending by households on goods and services, with the exception of
   a. purchase of intangible services.
   b. purchases of durable goods.
   c. purchases of new houses.
   d. spending on education.
ANS: C

16. If you buy a burger and fries at your favorite fast food restaurant,
   a. then neither GDP nor consumption will be affected because you would have eaten at home had you not bought the meal at the restaurant.
   b. then GDP will be higher, but consumption spending will be unchanged.
   c. then GDP will be unchanged, but consumption spending will be higher.
   d. then both GDP and consumption spending will be higher.
ANS: D
17. Goods that go into inventory and are not sold during the current period are
   a. counted as intermediate goods and so are not included in current period GDP.
   b. counted in current period GDP only if the firm that produced them sells them to another
      firm.
   c. included in current period GDP as inventory investment.
   d. included in current period GDP as consumption.
ANS: C

18. Net exports equal
   a. exports plus imports.
   b. exports minus imports.
   c. imports minus exports.
   d. GDP minus imports.
ANS: B

19. Tyler and Camille both live in Oklahoma. A new-car dealer in Oklahoma bought a new car from the
    manufacturer for $18,000 and sold it to Tyler for $22,000. Later that year, Tyler sold the car to
    Camille for $17,000. By how much did these transactions contribute to U.S. GDP for the year?
   a. $18,000
   b. $22,000
   c. $39,000
   d. $57,000
ANS: B

20. Consider two cars manufactured by Chevrolet in 2007. During 2007, Chevrolet sells one of the two
    cars to Sean for $24,000. Later in the same year, Sean sells the car to Kati for $19,000. The second
    automobile, with a market value of $30,000, is unsold at the end of 2007 and it remains in
    Chevrolet’s inventory. The transactions just described contribute how much to GDP for 2007?
   a. $24,000
   b. $43,000
   c. $54,000
   d. $73,000
ANS: C