

Chapter 23 Measuring a Nation's Income Practice Test

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- _____ 1. Macroeconomics is
- the study of market regulation.
 - the study of economy-wide phenomena.
 - the study of how households and firms make decisions and how they interact.
 - the study of money and financial markets.
- _____ 2. The goal of macroeconomics is
- to explain the economic changes that affect a particular household, firm, or market.
 - to explain the economic changes that affect many households, firms, and markets at once.
 - to devise policies to deal with market failures such as monopoly, externalities, common resources, and public goods.
 - all of the above.
- _____ 3. The best single measure of the economic well-being of a society is believed to be
- the stock market index.
 - consumption expenditures.
 - life expectancy.
 - Gross Domestic Product.
- _____ 4. In order to include many different products in a summary or aggregate measure, GDP
- uses a combination of weights and measures.
 - uses a combination of price indexes and costs of production of the products.
 - uses only the cost of production of the products.
 - uses market prices.
- _____ 5. Which of the goods and services produced in the economy are included as part of GDP?
- all goods and services
 - all final goods and services bought and sold in legal markets
 - all final goods and services which are bought and sold in markets
 - all final goods and services bought and sold in legal markets plus the imputed value of some other legal goods and services that are not bought and sold in markets
- _____ 6. If total spending rises from one year to the next, then
- the economy must be producing a larger output of goods and services.
 - prices at which goods and services are sold must be higher.
 - either the economy must be producing a larger output of goods and services, or the prices at which goods and services are sold must be higher, or both.
 - net exports must be falling.

- _____ 7. Recessions are associated with which of the following?
- rising unemployment
 - increased bankruptcies
 - falling profits
 - falling output
 - all of the above
- _____ 8. Suppose you find out that the GDP of China is \$1,000 billion and the GDP of the United States is \$10,000 billion. You should conclude that
- the typical person in the United States is 10 times as well off as the typical person in China.
 - the typical person in the United States is more than 10 times as well off as the typical person in China.
 - the typical person in the United States is less than 10 times as well off as the typical person in China.
 - it is not possible to make a good comparison of the economic well-being of typical individuals in the two countries without additional information.
- _____ 9. Statistics such as GDP, the unemployment rate, the rate of inflation, and the trade balance are
- microeconomic, since they affect individual households and firms.
 - macroeconomic, since they tell us something about the economy as a whole.
 - both microeconomic and macroeconomic.
 - neither macroeconomic nor microeconomic, but properly in the realm of political science.
- _____ 10. Statistics such as individual stock prices, salaries of business executives, and prices of California wines are
- microeconomic, since they reflect situations in individual businesses and markets.
 - macroeconomic, since they refer to the economy as a whole.
 - both microeconomic and macroeconomic.
 - neither microeconomic nor macroeconomic.
- _____ 11. In a simple circular-flow diagram, total income and total expenditure in an economy
- are seldom equal because of the dynamic changes which occur in an economy.
 - are equal only when all goods and services produced are sold.
 - are always equal because every transaction has both a buyer and a seller.
 - are always equal because of accounting rules.
- _____ 12. If you buy a new snowboard from the local sporting goods store, as a result of your purchase
- the increase in expenditure in the economy will equal the increase in income in the economy.
 - the increase in expenditure in the economy will exceed the increase in income in the economy.
 - the increase in income in the economy will exceed the increase in expenditure in the economy.
 - it is impossible to tell whether the increase in income in the economy will equal the increase in expenditure.

- _____ 13. Gross Domestic Product is defined as
- 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 a country's citizens in a given period of time.
 - 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 a country's citizens in a given period of time.
- _____ 14. The real economy is more complicated than the one illustrated in a simple circular-flow diagram because
- households do not buy all goods and services produced in the economy, and households do not spend all of their income on goods and services.
 - saving should be counted as part of expenditure.
 - taxes should be included as part of expenditure.
 - the income government gives poor people should be counted as government production of human capital.
- _____ 15. Chris lives in Utah, where gambling is illegal. Chris becomes a professional gambler, going to work each week in Idaho, where gambling is legal. In 2001, he earns \$100,000 from his profession. What will be the effect of his earnings on GDP?
- None of his earnings will be included in GDP because gambling is illegal in his home state.
 - Only the part of his earnings spent in Idaho will be included in GDP.
 - GDP will increase by \$100,000 because the income was earned legally.
 - GDP will increase by a fraction of \$100,000, equal to the fraction of the time Chris spends in Idaho.
- _____ 16. Latrell decides to hire Cynthia to mow his lawn, instead of mowing it himself, as he is accustomed to doing. As a result of this transaction,
- GDP will increase.
 - GDP will decrease.
 - GDP will be unaffected because the same service would be performed in either case.
 - GDP could increase or decrease, depending on whether Cynthia mows Latrell's lawn as well as Latrell could mow it himself.
- _____ 17. GDP includes the value of final goods and not intermediate goods because
- the value of intermediate goods is already included in the value of final goods.
 - the value of intermediate goods is too difficult to measure.
 - the value of intermediate goods is measured by GNP.
 - the value of intermediate goods depends on the number of separate production processes.
- _____ 18. The government reports that GDP "increased by 2 percent in the last quarter."
- GDP increased by 8 percent for the year.
 - GDP increased at an annual rate of 8 percent during the last quarter.
 - GDP increased at an annual rate of 2 percent during the last quarter.
 - GDP increased at an annual rate of .5 percent during the last quarter.

- _____ 19. Which of the following headlines would be more closely related to what microeconomists study than what macroeconomists study?
- a. Unemployment rate rises from 5 percent to 5.5 percent.
 - b. Real GDP grows by 3.1 percent in the third quarter.
 - c. Retail sales at stores show large gains.
 - d. The price of oranges rises after an early frost.