Instructions:

This is the on-line Multiple Choice Quiz for Chapter 4. Please do the following:

Step 1: Go to the special codes section on your score sheet

- Write your section number (4) under the letter K. Also fill out the appropriate bubble corresponding to your section number in column K.
- Go to the columns O and P. Enter for this chapter, 0 in the O column, and 4 in the P column. Also fill out the appropriate bubbles below in columns O and P.

Step 2: Enter your university identification number using numbers and corresponding bubbles.

Step 3: Enter your name, using letters and corresponding bubbles.

Step 4: Answer all 35 questions.

Step 5: Check the important dates link on the class home page for the availability and closing dates for the successive on-line multiple choice quizzes.

Step 6: Hand in your score sheets in class, to your TA's or to myself, in class, or outside my office, Heady Hall 281, no later than the posted closing date and hour (5 p.m.)

We will use the following grading scale:

A = 35, 34, 33, 32, 31, 30
B = 29, 28, 27, 26, 25, 24
C = 23, 22, 21, 20, 19, 18
D = 17, 16, 15, 14, 13, 12
F = less than 12

Note: All MC quizzes will be discussed in detail in class prior to the posted Friday 5 p.m. closing date and hour. Bring your printed test and score sheet to that class session for that purpose.

Reminder: do not forget to take the Chapter 4 on line Aplia quiz on time, i.e. by 5 p.m. Friday.
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Gross domestic product
   A) measures the value of the aggregate production of goods and services in a country during a given time period.
   B) measures the value of labor payments generated in an economy in a given time period.
   C) includes all the goods and none of the services produced in an economy in a given time period.
   D) is generally less than federal expenditure in any time period.

2) GDP does not directly include intermediate goods because
   A) that would count the intermediate goods twice.       B) intermediate goods are not valuable.
   C) that would understare the true size of GDP.       D) intermediate goods are not useful to consumers.

3) Double counting (counting the same thing twice) in GDP accounting is avoided by not including
   A) intermediate goods.       B) depreciation.
   C) illegal activities.       D) net exports.

4) In the circular flow of income
   A) households demand goods and services that are supplied by firms, while supplying factors that are demanded by firms.
   B) households sell goods and services while firms sell factors.
   C) households demand goods and services that are supplied by firms, and the firms demand factors that are supplied by intermediate firms.
   D) households buy goods and services while firms sell goods and services. Firms obtain labor from households, capital from government, and raw materials from other firms.
5) In the above figure, flow B represents ________.
   A) firms' payments for labor services  B) household purchases of goods and services
   C) household borrowing  D) household income

6) In the above figure, consumption expenditure is shown by flow
   A) A.  B) B.  C) C.  D) E.

7) If the United States spends __________ on foreign goods and services than foreigners spend on U.S.-made goods and services, the United States __________.
   A) less; must save more  B) less; borrows from the rest of the world
   C) more; lends to the rest of the world  D) more; borrows from the rest of the world

8) Total output and total income in the circular flow model
   A) are related because national income is less than national product.
   B) include only intermediate goods.
   C) are equal to each other.
   D) are measures of the economy's level of savings.

9) The distinction between a flow and a stock is that the former measures
   A) liquid items, while the latter measures solid items.
   B) an account on a monthly basis, while the latter measures it on an annual basis.
   C) a quantity per unit of time, while the latter measures a quantity that exists at a point in time.
   D) a value in dollars, while the latter measures it in real terms.
10) GDP is a
   A) flow because it measures production over a period of time.
   B) stock because it measures wealth at a distinct point in time.
   C) stock because it measures income for the entire country.
   D) flow because dollar values are used.

11) An economist giving a lecture mentions that positive net investment creates growth in capital equipment, which increases worker productivity. In this statement a flow variable is _______ and a stock variable is _______.
   A) capital; net investment  B) net investment; capital
   C) productivity; net investment  D) capital; productivity

12) Economists define investment as the
   A) purchase of raw land for later resale.
   B) purchase of stocks and bonds.
   C) difference between people's income and their spending.
   D) purchase of equipment, plants, and inventories.

13) Depreciation
   A) equals gross investment minus net investment.
   B) is the reduction in inventories per year.
   C) is also called capital consumption.
   D) Both answers A and C are correct.

14) In the equation, GDP = C + I + G + NX, G refers to
   A) the taxes and expenditures of all government units.
   B) local, state, and federal government purchases of goods and services, but does not include transfer payments.
   C) federal government expenditures plus all transfer payments.
   D) local, state, and federal government spending for all purposes.

15) In 2001, the largest component of GDP was
   A) gross private domestic investment.
   B) government purchases of goods and services.
   C) net exports of goods and services.
   D) personal consumption expenditures.

16) Which of the following purchases is included in personal consumption expenditures when determining gross domestic product?
   A) vacation expenses for a spring trip to Fort Lauderdale
   B) purchases of jeans to add to a store's inventory
   C) purchase of a new office building
   D) purchase of a new house because of the arrival of a new baby

17) Personal consumption expenditures include all of the following EXCEPT spending on
   A) consumer durable goods.
   B) new housing.
   C) consumer nondurable goods.
   D) consumer services.
18) In the calculation of gross domestic product by the expenditure approach, the "investment" component is
   A) gross investment minus depreciation.                   B) net investment.
   C) gross investment.                                     D) gross investment plus depreciation.

19) Of several purchases made by a family farm, which of the following would be included in GDP as part of
   investment expenditure?
   A) a U.S. government bond.                               B) 100 shares of corporate stock.
   C) 10 acres of land.                                     D) a new tractor.

20) Transfer payments are not included in GDP because
   A) they are not purchases of goods or services.
   B) they do not generate additional income.
   C) their market value cannot be accurately determined.
   D) their value is included in government expenditure.

21) Which of the following transfer payments is included in GDP?
   A) welfare payments                                      B) veteran's benefits
   C) Social Security payments                              D) none of the above

22) In 2001, net exports in the U.S. were
   A) zero.                                                 B) positive.
   B) positive.                                             C) greater than personal consumption expenditures.
   C) greater than personal consumption expenditures.       D) negative.

23) To calculate GDP using the expenditure approach, in part it is necessary to
   A) add imports and exports.                             B) subtract both exports and imports.
   B) subtract both exports and imports.                    C) add imports and subtract exports.
   C) add imports and subtract exports.                     D) add exports and subtract imports.

24) If Ford sells 200 Explorers for a total of $400,000 to Germany, while the U.S. imports 100 BMWs for a total of
    $500,000 from Germany,
    A) U.S. GDP increases because it sells more Explorers.
    B) U.S. net exports is positive.
    C) U.S. GDP decreases because net exports are negative.
    D) Germany's GDP decreases.

25) If an American firm produces goods that are sold to a German household, then
    A) German GDP increases but not that of the United States.
    B) net exports in the United States will not change because an export immediately generates an offsetting import.
    C) the transaction is considered an export in the German GDP accounts.
    D) U.S. GDP increases.
The above table shows data from the GDP accounts of Hypothetica. Hypothetica’s GDP is ________ billion.

A) $190  B) $270  C) $210  D) $160

Which of the following expressions equals GDP?

A) compensation of employees + net exports + depreciation + corporate profits.
B) compensation of employees + gross investment + rental income + depreciation + corporate profits + indirect taxes – subsidies.
C) compensation of employees + consumption + depreciation + net investment.
D) compensation of employees + net interest + rental income + depreciation + corporate profits + proprietors’ income + indirect taxes – subsidies.

The largest component of income is


Gross domestic product is the sum of resource incomes ________ indirect business taxes minus subsidies ________ depreciation.

A) minus; minus  B) minus; plus  C) plus; plus  D) plus, minus

The above table shows some national income accounting data for a nation. In this nation, gross domestic product is equal to ________ billion.

A) $2,800  B) $2,500  C) $2,000  D) $2,300
<table>
<thead>
<tr>
<th>Item</th>
<th>Dollars</th>
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<tr>
<td>Personal consumption expenditure</td>
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<tr>
<td>Gross private domestic investment</td>
<td>355</td>
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<tr>
<td>Government purchases of goods and services</td>
<td>590</td>
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<tr>
<td>Exports of goods and services</td>
<td>70</td>
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<tr>
<td>Imports of goods and services</td>
<td>50</td>
</tr>
<tr>
<td>Depreciation</td>
<td>200</td>
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<tr>
<td>Indirect business taxes</td>
<td>75</td>
</tr>
</tbody>
</table>

31) Based on the data in the above table, gross domestic product equals ________ and net domestic product equals ________.
   A) $2,465; $2,265  B) $2,750; $2,550  C) $2,550; $2,550  D) $2,650; $2,850

32) Which of the following statements is correct?
   A) Nominal GDP increases when the prices of goods and services increase.
   B) Nominal GDP does not change when the production of goods and services increases.
   C) Real GDP changes only when the prices of goods and services really change.
   D) Nominal GDP is not affected by changes in prices of goods and services.

<table>
<thead>
<tr>
<th>Year</th>
<th>Price level</th>
<th>Nominal GDP</th>
</tr>
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<tbody>
<tr>
<td>1982</td>
<td>100</td>
<td>$1,600</td>
</tr>
<tr>
<td>1992</td>
<td>150</td>
<td>$3,000</td>
</tr>
<tr>
<td>2002</td>
<td>300</td>
<td>$6,000</td>
</tr>
</tbody>
</table>

33) In the above table, using 1982 as the base year, what was real GDP in 1992?
   A) $2,000  B) $2,400  C) $1,600  D) $3,000

34) In the above table, which of the following is true concerning changes between 1992 and 2002?
   A) Nominal GDP increased, but real GDP decreased.
   B) Nominal GDP increased, but real GDP was unchanged.
   C) Nominal and real GDP both increased.
   D) None of the above statements are true.

35) Real GDP does not show the state of economic welfare in a country in part because GDP omits
    I. household production.
    II. leisure time available.
    III. the quality of the environment.
    A) II and III  B) I, II and III  C) I only  D) I and III