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 (1, or 4, or 5) under the letter K. Also fill out the appropriate bubble corresponding to your section number in column K.
   • Go to the columns 0 and P. Enter for this chapter, 0 in the 0 column, and 4 in the P column. Also fill out the appropriate bubbles below in columns 0 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.).

c 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 for each section (1, 4, or 5) 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.
MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Gross domestic product is the total produced within a country in a given time period.
   A) amount of final and intermediate goods and services
   B) market value of all final goods and services
   C) market value of all final and intermediate goods and services plus investment and depreciation
   D) market value of all final and intermediate goods and services

2) The circular flow diagram shows
   A) how the prices of factors are determined.
   B) how nominal GDP is distinct from real GDP.
   C) the effects of inflation in a simple economy.
   D) the flows between different sectors of the economy.

3) In the circular flow diagram, aggregate expenditure includes the sum of
   A) consumption and investment.
   B) saving and investment.
   C) income and saving.
   D) consumption, investment, and saving.

4) In the circular flow of economic activity
   A) aggregate expenditure is measured as it moves through the financial markets.
   B) aggregate income measures the dollar value of labor resources only.
   C) aggregate expenditure measures the dollar value of purchases of factors.
   D) aggregate expenditure measures the dollar value of purchases of final goods and services.

5) If U.S. imports are less than U.S. exports, the
   A) U.S. economy borrows from the rest of the world.
   B) U.S. government has a budget deficit.
   C) rest of the world borrows from the U.S. economy.
   D) U.S. government has a budget surplus.

6) When imports into the United States exceed exports from the United States, the United States
   A) borrows from the rest of the world or sells foreign assets.
   B) borrows from the rest of the world or buys foreign assets.
   C) lends to the rest of the world or sells foreign assets.
   D) lends to the rest of the world or buys foreign assets.

7) Investment is financed by which of the following?
   I. government spending
   II. national saving
   III. borrowing from the rest of the world
   A) II and III only       B) I and II only       C) I, II, and III       D) I and III only
8) If the government runs a budget deficit, then
   A) household but not business saving must pay for the deficit.
   B) national saving cannot fund investment.
   C) part of household and business saving finances the deficit.
   D) national saving is negative.

9) Which of the following is a flow variable?
   A) the money in your pocket    B) capital
   C) gross domestic product      D) wealth

10) Depreciation
    A) does not change the level of capital in the economy.
    B) is the decrease in the capital stock because of wear and tear.
    C) is also known as capital consumption.
    D) Both answers B and C are correct.

11) Depreciation is subtracted from gross domestic product to determine directly
    A) national income.
    B) disposable income.
    C) net domestic product.
    D) consumption expenditures plus investment expenditures plus government purchases plus net exports.

12) The expenditure approach measures GDP by adding
    A) consumption expenditure, gross private domestic investment, net exports of goods and services, and government purchases of goods and services.
    B) compensation of employees, rental income, corporate profits, net interest, and proprietors' income.
    C) compensation of employees, rental income, corporate profits, net interest, proprietors' income, indirect taxes paid, and depreciation and subtracting subsidies paid by the government.
    D) compensation of employees, rental income, corporate profits, net interest, proprietors' income, subsidies paid by the government, indirect taxes paid, and depreciation.

13) Aggregate expenditures include all of the following EXCEPT
    A) consumption of food.
    B) purchases of a piece of capital equipment.
    C) purchases of intermediate goods.
    D) purchases of guns by the government.

14) In the national income accounts, the purchase of a new house counts as
    A) investment.
    B) an addition to inventory.
    C) a transfer.
    D) consumption expenditure.

15) Transfer payments are not part of government purchases of goods and services because transfer payments
    A) are not always spent on goods produced in the U.S.
    B) are not predictable given the nature of their appropriation and allocation.
    C) do not represent the purchase of a final good or service.
    D) The premise of the question is incorrect because transfer payments are part of government purchases of goods and services.
16) Net exports of goods and services equal the
   A) exports of goods and services plus the imports of goods and services.
   B) exports of goods and services divided by the imports of goods and services.
   C) imports of goods and services minus the exports of goods and services.
   D) exports of goods and services minus the imports of goods and services.

| Government purchases of goods and services | $240 |
| Depreciation                               | 240  |
| Gross private domestic investment          | 400  |
| Personal income taxes                      | 140  |
| Net taxes                                  | 120  |
| Net exports of goods and services          | 80   |
| Personal consumption expenditures          | 640  |
| Net interest                               | 100  |

17) Using the data in the above table, net domestic product equals
   A) $1,280.   B) $1,120.   C) $1,290.   D) $1,360.

18) The income approach to measuring GDP sums together
   A) the costs of each firm in the economy and then subtracts indirect business taxes and the capital consumption allowance.
   B) compensation of employees, rental income, corporate profits, net interest, proprietors' income, subsidies paid by the government, indirect taxes paid, and capital consumption expenditures.
   C) the sales of each firm in the economy.
   D) compensation of employees, rental income, corporate profits, net interest, proprietors' income, indirect taxes paid, and capital consumption expenditures and subtracts subsidies paid by the government.

19) The largest component of national income is
   A) corporate profits.   B) rental income.
   C) proprietors' income.   D) compensation of employees.

20) Reasons why valuing goods at their market prices is different than valuing them at their factor costs include
   A) personal taxes and corporate taxes.   B) indirect taxes and subsidies.
   C) exports and imports.   D) depreciation and investment.

| Corporate profits | $200 |
| Net interest       | 150  |
| Indirect taxes less subsidies | 230 |
| Depreciation       | 250  |
| Compensation of employees | 1,350 |
| Proprietor's income | 150  |
| Rental income      | 70   |
| Personal consumption expenditures | 1,400 |
| Government purchases of goods and services | 500 |
| Net exports of goods and services | 40   |

21) Using the data in the table above, gross domestic product equals
   A) $2,150.   B) $2,400.   C) $1,920.   D) $1,940.
22) Real GDP measures the
   A) value of total production linked to prices of a single year.
   B) general upward drift in prices.
   C) total profits earned by all businesses valued using prices from a single year.
   D) changes in the prices of output measured in dollars.

23) Economists distinguish real from nominal GDP to
   A) determine whether the government sector is growing.
   B) determine whether economic welfare has changed.
   C) measure the change in nominal interest rates.
   D) determine whether real production has changed.

24) The chain-weighted output index
   A) is an inaccurate way to measure growth in real GDP and so has been replaced by the "nominal-to-real" index.
   B) uses only the current year's prices to calculate growth in real GDP.
   C) must only be calculated every other year.
   D) uses prices for the current year and the previous year to calculate growth in real GDP.

25) The GDP deflator equals 100 times
   A) gross domestic product divided by net domestic product.
   B) nominal GDP divided by real GDP.
   C) net domestic product divided by gross domestic product.
   D) real GDP divided by nominal GDP.

26) Suppose that nominal GDP per person is $21,000 in 2002, the 1998 GDP deflator is 100, and the 2002 deflator is 105. The approximate real GDP per person in 2002 is
   A) $21,000.  
   B) $22,050.  
   C) $19,048.  
   D) $20,000.

27) Which of the following is NOT included in real GDP?
   A) production of services, such as the services of doctors
   B) production of goods that last more than one year, such as television sets
   C) production in the home
   D) production of goods that do not last more than one year, such as gasoline

28) If a larger fraction of the adult population is working, household production
   A) not counted in real GDP increases.
   B) not counted in real GDP decreases.
   C) counted in real GDP increases.
   D) counted in real GDP decreases.

29) Which of the following is NOT included in real GDP?
   A) production of services, such as the services of hair dressers
   B) production of goods that last more than a year, such as a pair of roller blades
   C) production that takes place in the underground economy
   D) production of goods that last less than a year, such as production of hot dogs
30) The underground economy exists for all of the following reasons EXCEPT the
   A) production of illegal goods.
   B) avoidance of government regulation.
   C) desire to maintain accurate records of economic transactions.
   D) avoidance of taxes.

31) Because pollution reduces economic welfare, real GDP
   A) overstates economic welfare.
   B) decreases as pollution increases.
   C) increases to take into account the expenditures that will be made in the future to clean up the pollution.
   D) understates economic welfare.

32) Which of the following is NOT a final good?
   A) a new car sold to Avis for use in their fleet of rental cars
   B) a new computer sold to an NYU student
   C) a purse sold to a foreign visitor
   D) a hot dog sold to a spectator at a Chicago Bears football game

33) Currently, real GDP is calculated using
   A) current year prices method.
   B) base year prices method.
   C) chain-weighted output index method.
   D) the quantities only method.

34) Using the data in the above table, what is real GDP in 2002?
   A) $2,381 billion
   B) $2,520 billion
   C) $2,137 billion
   D) $2,051 billion

35) Which of the following statements about the comparison between GDP in China and in the United States is correct?
   A) China's GDP per person is higher using purchasing power parity prices rather than the exchange rate when valuing China's GDP in dollars.
   B) Using purchasing power parity prices to value China's GDP in dollars shows that China's GDP per person exceeds the GDP per person in the United States.
   C) Using the exchange rate to value China's GDP in dollars shows that China's GDP per person exceeds the GDP per person in the United States.
   D) None of the above answers are correct because they are all false statements.