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
   a. the study of market regulation.
   b. the study of economy-wide phenomena.
   c. the study of how households and firms make decisions and how they interact.
   d. the study of money and financial markets.

____ 2. The goal of macroeconomics is
   a. to explain the economic changes that affect a particular household, firm, or market.
   b. to explain the economic changes that affect many households, firms, and markets at once.
   c. to devise policies to deal with market failures such as monopoly, externalities, common resources, and public goods.
   d. all of the above.

____ 3. The best single measure of the economic well-being of a society is believed to be
   a. the stock market index.
   b. consumption expenditures.
   c. life expectancy.
   d. Gross Domestic Product.

____ 4. In order to include many different products in a summary or aggregate measure, GDP
   a. uses a combination of weights and measures.
   b. uses a combination of price indexes and costs of production of the products.
   c. uses only the cost of production of the products.
   d. uses market prices.

____ 5. Which of the goods and services produced in the economy are included as part of GDP?
   a. all goods and services
   b. all final goods and services bought and sold in legal markets
   c. all final goods and services which are bought and sold in markets
   d. 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
   a. the economy must be producing a larger output of goods and services.
   b. prices at which goods and services are sold must be higher.
   c. 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.
   d. net exports must be falling.
7. Recessions are associated with which of the following?
   a. rising unemployment
   b. increased bankruptcies
   c. falling profits
   d. falling output
   e. 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
   a. the typical person in the United States is 10 times as well off as the typical person in China.
   b. the typical person in the United States is more than 10 times as well off as the typical person in China.
   c. the typical person in the United States is less than 10 times as well off as the typical person in China.
   d. 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
   a. microeconomic, since they affect individual households and firms.
   b. macroeconomic, since they tell us something about the economy as a whole.
   c. both microeconomic and macroeconomic.
   d. 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
    a. microeconomic, since they reflect situations in individual businesses and markets.
    b. macroeconomic, since they refer to the economy as a whole.
    c. both microeconomic and macroeconomic.
    d. neither microeconomic nor macroeconomic.

11. In a simple circular-flow diagram, total income and total expenditure in an economy
    a. are seldom equal because of the dynamic changes which occur in an economy.
    b. are equal only when all goods and services produced are sold.
    c. are always equal because every transaction has both a buyer and a seller.
    d. 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
    a. the increase in expenditure in the economy will equal the increase in income in the economy.
    b. the increase in expenditure in the economy will exceed the increase in income in the economy.
    c. the increase in income in the economy will exceed the increase in expenditure in the economy.
    d. 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
   a. the market value of all final goods and services produced within a country in a given period of time.
   b. the market value of all final goods and services produced by a country's citizens in a given period of time.
   c. the market value of all goods and services produced within a country in a given period of time.
   d. 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
   a. 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.
   b. saving should be counted as part of expenditure.
   c. taxes should be included as part of expenditure.
   d. 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?
   a. None of his earnings will be included in GDP because gambling is illegal in his home state.
   b. Only the part of his earnings spent in Idaho will be included in GDP.
   c. GDP will increase by $100,000 because the income was earned legally.
   d. 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,
   a. GDP will increase.
   b. GDP will decrease.
   c. GDP will be unaffected because the same service would be performed in either case.
   d. 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
   a. the value of intermediate goods is already included in the value of final goods.
   b. the value of intermediate goods is too difficult to measure.
   c. the value of intermediate goods is measured by GNP.
   d. 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."
   a. GDP increased by 8 percent for the year.
   b. GDP increased at an annual rate of 8 percent during the last quarter.
   c. GDP increased at an annual rate of 2 percent during the last quarter.
   d. 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.