REVIEW QUESTIONS CHAPTER 6

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

1. Which of the following statistics is the best single measure of an economy's well-being?
   a. the unemployment rate  
   b. the inflation rate  
   c. GDP  
   d. the trade deficit

2. Which of the following is correct for an economy?
   a. Income is greater than production.  
   b. Production is greater than income.  
   c. Income always equals production.  
   d. Income equals production only when saving is zero.

3. Robert works as a lawyer.
   a. GDP computations should be made using his income from providing legal services, not his production of legal services.  
   b. GDP computations should be made using his production, not his income from providing legal services.  
   c. GDP computations should include both his income and his production.  
   d. GDP computations should include either his income or his production, but not both.

4. If GDP rises,
   a. income and production must both rise.  
   b. income and production must both fall.  
   c. income must rise, but production may rise or fall.  
   d. production must rise, but income may rise or fall.

5. In an economy consisting of only households and firms, GDP can be computed by
   a. adding up the total expenditures of households.  
   b. adding up the total income paid by firms.  
   c. Either a or b are correct.  
   d. None of the above are correct.

6. Production equals income because
   a. by law firms must pay out all their revenue as income to someone.  
   b. for every sale there is a buyer and a seller.  
   c. because ultimately firms are owned by households.  
   d. None of the above are correct.

7. To compute GDP we
   a. simply sum the number of final goods and services.  
   b. sum the cost of producing final goods and services.  
   c. use weights determined by a survey regarding how much people value different sorts
of goods and services to compute GDP as a weighted average.

d. sum the market values of final goods and services.

___ 8. Which of the following is not included in GDP?
a. unpaid cleaning and maintenance of houses
b. services such as those provided by lawyers and hair stylists
c. the estimated rental value of owner-occupied housing
d. production of foreign citizens living in the United States

___ 9. Suppose that an apartment complex converts to a condominium where the renters are now owners of their former apartments. Suppose that an estimate of the value of the condominium owners' housing services is now the same as their former rent.
a. GDP necessarily increases.
b. GDP necessarily decreases.
c. GDP is unaffected because neither the rent nor the estimate of the value of housing services is included in GDP.
d. GDP is unaffected because previously rent was included in GDP, and now it is replaced by the estimate of the value of housing services.

___ 10. Over the last few decades Americans have chosen to cook less at home and eat more at restaurants. This change in behavior, by itself,
a. increased measured GDP.
b. reduced measured GDP.
c. did not affect measured GDP.
d. affected measured GDP only to the extent that people eat more at restaurants than at home.

___ 11. If Susan decides to change the oil in her car herself instead of having Speedy Lube (car repair shop) change the oil for her GDP
a. necessarily rises.
b. necessarily falls.
c. will be unaffected because the same service is produced in either case.
d. will be unaffected because car maintenance is not included in GDP.

___ 12. A professional gambler moves from a state where gambling is illegal to a state where gambling is legal. This move
a. necessarily raises GDP.
b. necessarily decreases GDP.
c. doesn't change GDP because gambling is never included in GDP.
d. doesn't change GDP because in either case his income is included.

___ 13. If a state made an illegal activity such as gambling or alcohol drinks legal, then other things the same GDP
a. necessarily increases.
b. necessarily decreases.
c. doesn't change because both legal and illegal production are included in GDP.
d. doesn't change because these activities are never included in GDP.
14. GDP
a. includes the value of intermediate goods so we can get a measure of sales.
b. excludes the value of intermediate goods because they are too difficult to measure.
c. excludes the value of intermediate goods because their value is already counted in the value of final goods.
d. None of the above are correct.

15. 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. equals GNP for the year.

16. Grapes are
a. always counted as an intermediate good.
b. counted as an intermediate good only if they are used to produce another good like juice.
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.

17. Flour is
a. always counted as an intermediate good.
b. counted as an intermediate good if it is used by a company to make bread.
c. counted as a final good if it is used by a consumer who bakes bread for his own consumption.
d. Both b and c are correct.

18. The local Chevrolet dealership has an increase in inventory of 25 cars in 2003. In 2004 it sells all 25 cars.
a. The value of increased inventory will be counted as part of GDP in 2003, but the value of the cars sold in 2004 will not cause GDP to increase.
b. The value of the increased inventory will not affect 2003 GDP, but will be included in 2004 GDP.
c. The value of the increased inventory will be counted as 2003 GDP and the value of the cars sold in 2004 will increase 2004 GDP.
d. None of the above are correct.

19. George buys and lives in a newly constructed home he paid $200,000 for in 2003. He sells the house in 2004 for $225,000.
a. The 2004 sale increases 2004 GDP by $225,000 and does nothing to 2003 GDP.
b. The 2004 sale increases 2004 GDP by $25,000 and does nothing to 2003 GDP.
c. The 2004 sale does not increase 2004 GDP and does nothing to 2003 GDP.
d. The 2004 sale increases 2004 GDP by $225,000 and 2003 GDP is revised upward by $25,000.

20. Anna, a U.S. citizen, works only in Germany. The value added to production from her employment is included
a. only in U.S. GDP.
b. only in German GDP.
c. in both German and U.S. GDP.
d. in neither German nor U.S. GDP.

21. An American company owns a fast food restaurant in Romania. The value of goods and services it produces is included
   a. in both Romanian and U.S. GDP.
   b. partly in Romanian GDP and partly in U.S. GDP.
   c. in Romanian GDP, but not U.S. GDP.
   d. in U.S. GDP, but not Romanian GDP.

22. Which of the following is included in GDP?
   a. the sale of stocks and bonds
   b. the sale of used goods
   c. the sale of services such as visits to a doctor
   d. All of the above are correct.

23. Which of the following is included in U.S. GDP?
   a. goods produced by foreign citizens working in the United States
   b. the difference in the price of the sale of an existing home and its original purchase price
   c. known illegal activities
   d. None of the above are correct.

24. In computing GDP, investment is spending on
   a. stocks, bonds, and other financial assets.
   b. real estate and financial assets.
   c. new capital equipment, inventories, and structures, including new housing.
   d. capital equipment, inventories, and structures, excluding household purchases of new housing.

25. Government purchases include spending on goods and services by
   a. the federal government only.
   b. state and federal governments only.
   c. local, state and federal governments.
   d. local and state governments, but not the federal government.

26. If you buy a burger and fries at your favorite fast food restaurant
   a. neither GDP nor consumption spending will be affected because you would have eaten at home if you hadn't eaten at the restaurant.
   b. GDP will be higher, but consumption spending will be unchanged.
   c. GDP will be unchanged, but consumption spending will be higher.
   d. both GDP and consumption spending will be higher.

27. When a firm produces consumer goods and adds some to inventory rather than selling it. It is
   a. not counted in the current quarter GDP.
   b. counted in the current quarter GDP as investment.
   c. counted in the current quarter GDP as consumption.
   d. counted in the current quarter GDP as a statistical discrepancy.
28. A Minnesota farmer buys a new tractor made in Iowa by a German company. As a result
a. U.S. investment and GDP increase, but German GDP is unaffected.
b. U.S. investment and German GDP increase, but U.S. GDP is unaffected.
c. U.S. investment, U.S. GDP, and German GDP are unaffected, because tractors are intermediate goods.
d. U.S. investment, U.S. GDP, and German GDP all increase.

29. If a U.S. household buys a $75 handbag from Italy, U.S. consumption increases by $75, U.S.
a. imports increase by $75, but U.S. GDP is unaffected.
b. imports are unaffected, and U.S. GDP is unaffected.
c. exports increase by $75, and U.S. GDP increases by $75.
d. 

30. A transfer payment is
a. a payment for moving expenses a worker receives when he or she is transferred by an employer to a new location.
b. a payment that is automatically transferred from your bank account to pay your utility bill.
c. the term that is used to indicate that your paycheck has been automatically deposited to your bank account.
d. a form of government spending that is not made in exchange for a currently produced good or service.

31. If the U.S. government pays an economist at the U.S. Department of Commerce $50,000 in salary in 2003, and $30,000 in retirement benefits in 2004
a. the 2003 payment is included in 2003 GDP as government purchases, but the 2004 payment is not included in 2004 GDP.
b. the 2003 payment is included in 2003 GDP as government purchases, and the 2004 payment is included in 2004 GDP as government transfer payments.
c. the 2003 payment is included in 2003 GDP as government purchases, and the 2004 payment is allocated to previous years’ GDP according to the amount of work performed each year.
d. 

32. Transfer payments are
a. included in GDP because they represent income to individuals.
b. not included in GDP because they are not payments for currently produced goods or services.
c. included in GDP because the income will be spent for consumption.
d. not included in GDP because taxes will have to be raised to pay for them.

33. Which of these would NOT be included in the component(s) listed after them?
a. Mary buys a skateboard manufactured in Germany-U.S. consumption and U.S. imports.
b. Shelly adds DVDs produced in the United States to her inventory-U.S. investment.
c. Emily receives her Social Security check-U.S. government expenditures.
d. None of the above are correct.
34. GDP is used as the basic measure of a society's economic well-being. A better measure of the economic well-being of individuals in society is
a. GDP per person.
b. the consumption component of GDP.
c. government expenditures per person.
d. the level of business investment.

35. The information below was reported by the World Bank. On the basis of this information, which list below contains the correct ordering of GDP per person from highest to lowest?

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<tr>
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<tbody>
<tr>
<td>30.1 million</td>
<td>$10,400 million</td>
<td>Kenya</td>
</tr>
<tr>
<td>33.7 million</td>
<td>$9,000 million</td>
<td>Tanzania</td>
</tr>
<tr>
<td>12.6 million</td>
<td>$7,200 million</td>
<td>Zimbabwe</td>
</tr>
</tbody>
</table>

a. Kenya, Tanzania, Zimbabwe  
b. Kenya, Zimbabwe, Tanzania  
c. Zimbabwe, Kenya Tanzania  
d. Zimbabwe, Tanzania, Kenya

40. GDP may be computed as either the production of, or the income generated by, the value of final goods and services produced within an economy.  
41. When an American doctor opens a practice in Bermuda, his production there is part of U.S. GDP.