MIDTERM 1 REVIEW

1. Which of the following newspaper headlines would be more closely related to what microeconomists study than to 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.

2. For an economy as a whole,
   a. income is greater than expenditure
   b. expenditure is greater than income.
   c. income is equal to expenditure.
   d. GDP measures income more precisely than it measures expenditure.

3. Firms use the money they get from a sale to
   a. pay wages to workers.
   b. pay rent to landlords.
   c. pay profit to the firms’ owners.
   d. All of the above are correct.

4. GDP is defined as
   a. the market value of all goods and services produced within a country in a given period of time.
   b. the market value of all goods and services produced by the citizens of a country, regardless of where they are living in a given period of time.
   c. the market value of all final goods and services produced within a country in a given period of time.
   d. the market value of all final goods and services produced by the citizens of a country, regardless of where they are living, in a given period of time.

5. Estimates of the values of which of the following non-market goods or services are included in GDP?
   a. the value of unpaid housework
   b. the value of vegetables and other foods that people grow in their gardens
   c. the estimated rental value of owner-occupied homes
   d. All of the above are included.

6. Over time, people have come to rely more on market-produced goods and less on goods that they produce for themselves. For example, busy people with high incomes, rather than cleaning their own houses, hire people to clean their houses. By itself, this change has
   a. caused GDP to fall.
   b. not caused any change in GDP.
   c. caused GDP to rise.
   d. probably changed GDP, but in an uncertain direction; the direction of the change
depends on the difference in the quality of the cleaning that has resulted.

7. Grapes are
a. always counted as an intermediate good.
b. counted as an intermediate good only if they are used to produce another good such as wine.
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.

8. An Italian company operates a pasta restaurant in the U.S. The profits from this pasta restaurant are included in
a. U.S. GNP and Italian GNP.
b. U.S. GDP and Italian GDP.
c. U.S. GDP and Italian GNP.
d. U.S. GNP and Italian GDP.

<table>
<thead>
<tr>
<th>Year</th>
<th>Price of Sandwiches</th>
<th>Price of Magazines</th>
<th>Quantity of Sandwiches</th>
<th>Quantity of Magazines</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$4.00</td>
<td>$2.00</td>
<td>100</td>
<td>180</td>
</tr>
<tr>
<td>2007</td>
<td>$5.00</td>
<td>$2.50</td>
<td>120</td>
<td>200</td>
</tr>
<tr>
<td>2008</td>
<td>$6.00</td>
<td>$3.50</td>
<td>150</td>
<td>200</td>
</tr>
</tbody>
</table>

9. Refer to Table 23-3. Nominal GDP for 2007 is
a. $900.
b. $1,100.
c. $1,250.
d. $1,350.

10. Refer to Table 23-3. Using 2007 as the base year, for 2006,
a. real GDP is $760 and the GDP deflator is 100.
b. real GDP is $760 and the GDP deflator is 125.
c. real GDP is $880 and the GDP deflator is 80.
d. real GDP is $950 and the GDP deflator is 80.

11. When the consumer price index rises, the typical family
a. has to spend more dollars to maintain the same standard of living.
b. can spend fewer dollars to maintain the same standard of living.
c. finds that its standard of living is not affected.
d. can offset the effects of rising prices by saving more.

12. The consumer price index is used to
a. differentiate gross national product from net national product.
b. turn dollar figures into meaningful measures of purchasing power.
c. characterize the types of goods and services that consumers purchase.
d. measure the quantity of goods and services that the economy produces.

13. Which of the following is the most accurate statement about nominal and real interest rates?
   a. Nominal and real interest rates always move together.
   b. Nominal and real interest rates never move together.
   c. Nominal and real interest rates often do not move together.
   d. Nominal and real interest rates always move in opposite directions

14. The steps involved in calculating the consumer price index, in order, are as follows:
   a. Choose a base year, fix the basket, compute the inflation rate, compute the basket's cost, and compute the index.
   b. Choose a base year, find the prices, fix the basket, compute the basket's cost, and compute the index.
   c. Fix the basket, find the prices, compute the basket's cost, choose a base year and compute the index.
   d. Fix the basket, find the prices, compute the inflation rate, choose a base year and compute the index.

15. In the country of Hyrkania, the CPI in 2000 was 120 and the CPI in 2001 was 132. Jake, a resident of Hyrkania, borrowed money in 2000 and repaid the loan in 2001. If the nominal interest rate on the loan was 12 percent, then the real interest rate was
   a. 12 percent.
   b. 10 percent.
   c. 2 percent.
   d. impossible to determine without knowing the base year for the CPI.

16. The inflation rate is calculated
   a. using the national income accounts.
   b. by adding up the price increases of all goods and services.
   c. by computing a simple average of the price increases for all goods and services.
   d. by determining the percentage increase in the price index from the preceding period

17. In a particular economy, the price index was 270 in 2005 and it was 300 in 2006. Which of the following statements is correct?
   b. The economy experienced a higher inflation rate between 2005 and 2006 than it had experienced between 2004 and 2005.
   c. The inflation rate between 2005 and 2006 was 30 percent.
   d. All of the above are correct

18. Suppose the nominal interest rate is 6 percent and the expected inflation rate is 4 percent.
   a. The dollar value of savings increases by 10 percent and the value of savings measured in goods is expected to increase by 6 percent
   b. The dollar value of savings increases by 10 percent and the value of savings
measured in goods is expected to increase by 4 percent
c. The dollar value of savings increases by 6 percent and the value of savings in
goods is expected to increase by 4 percent
d. The dollar value of savings increases by 6 percent and the value of savings in

goods is expected to increase by 2 percent

19. Ms. Smith borrowed $1,000 from her bank for one year at an interest rate of 10 percent. During that year the price level went up by 15 percent. Which of the following statements is correct?
a. Ms. Smith will repay the bank fewer dollars than she initially borrowed.
b. Ms. Smith's repayment will give the bank less purchasing power than it originally loaned her.
c. Ms. Smith's repayment will give the bank greater purchasing power than it originally loaned her.
d. Ms. Smith's repayment will give the bank the same purchasing power that it originally loaned her.

20. An increase in the price of domestically-produced industrial robots will be reflected in
a. both the GDP deflator and the consumer price index.
b. neither the GDP deflator nor the consumer price index.
c. the GDP deflator but not in the consumer price index.
d. the consumer price index but not in the GDP deflator.

\[ \text{Table 24-1} \]

<table>
<thead>
<tr>
<th>Year</th>
<th>Peaches</th>
<th>Pecans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$11 per bushel</td>
<td>$6 per bushel</td>
</tr>
<tr>
<td>2006</td>
<td>$9 per bushel</td>
<td>$10 per bushel</td>
</tr>
</tbody>
</table>

21. Refer to Table 24-1. Suppose the typical consumer basket consists of 10 bushels of peaches and 15 bushels of pecans. Using 2005 as the base year, the CPI for 2006 is
a. 100.
b. 120.
c. 200.
d. 240.

22. Refer to Table 24-1. Suppose the typical consumer basket consists of 10 bushels of peaches and 15 bushels of pecans. Using 2005 as the base year, what was the inflation rate in 2006?
a. 20 percent 
b. 16.7 percent 
c. 10 percent 
d. 8 percent
25. In 2002 real GDP per person in Olympus was 4,500. In 2001 it was 4,250. What was the growth rate of real GDP per person?
   a. 5.6 percent  
   b. 5.9 percent  
   c. 6.5 percent  
   d. None of the above are correct to the nearest tenth.

26. In 2002 real GDP in Oceania was 561.0 billion and the population was 2.2 million. In 2001 real GDP was 500.0 billion and the population was 2.0 million. What was the approximate growth rate of real GDP per person?
   a. 12 percent  
   b. 10 percent  
   c. 4 percent  
   d. 2 percent

27. In 2002 real GDP in Latania was 750 billion and the population was 3 million. In 2003 real GDP was 907.5 and the population was 3.3 million. What was the approximate growth rate of real GDP per person?
   a. 10 percent  
   b. 14 percent  
   c. 17 percent  
   d. 21 percent

28. Which of the following is a nominal quantity?
   A) the number of people unemployed  
   D) the real wage of factory workers  
   B) the current price of a barrel of oil  
   E) the amount of coal mined in one month  
   C) the number of cars produced in 2005

29. Which of the following is a real quantity?
   A) the current wages paid to factory workers  
   D) the cost of a new car  
   B) the number of tons of steel produced in 2005  
   E) the price of movie ticket  
   C) the current price of a barrel of oil

30. If workers received a 5 percent wage increase and the rate of inflation was 5 percent, then their real wage:
   A) increased.  
   D) was less than the nominal wage.  
   B) decreased.  
   E) exceeded the nominal wage.  
   C) remained constant.

31. If a used car dealer buys a car for $3,000 and resells it for $3,300, how much has been added to GDP?
   A) nothing.  
   B) $300.  
   C) $3,000.  
   D) $3,300.

32. Using the expenditure approach, gross domestic product equals
   A) gross national product.  
   B) gross national product minus net exports.  
   C) the sum of consumption, investment, and government expenditures.  
   D) the sum of consumption, investment, government expenditures, and net exports.
33. An increase in nominal GDP implies
   A) an increase in the price level.
   B) an increase in output.
   C) an increase in both the price level and output.
   D) an increase in either the price level, or output, or both.

34. Which of the following would increase this year's GDP?
   A) A mother quits her job to take care of her newborn child.
   B) A commission charged by your broker when you sold 100 shares of Nortel stock.
   C) A $10,000 inheritance from Aunt Mary.
   D) Receipts from a yard sale.

35. Personal consumption expenditures consist of
   A) household and individual purchases of services and durable and nondurable goods.
   B) foreign investments in Canada.
   C) foreign plus domestic investments.
   D) domestic investments.

36. Which of the following is an example of an intermediate product?
   A) A pair of skis sold by a sporting goods retailer to a skier.
   B) A share of IBM stock.
   C) The lumber produced by Boise Cascade and sold to a builder of new houses.
   D) An antique car sold to the highest bidder.

37. For the purposes of calculating GDP using the expenditure approach, which of the following is NOT included in the government expenditures account?
   A) Government purchases of pencils.
   B) The payroll of the federal government.
   C) Social assistance payments to the poor.
   D) The government's purchase of a computer.

38. The total market value of all final goods and services produced in a country in a year is
   A) NNP.
   B) GNI.
   C) NDP.
   D) GDP.

39. Depreciation
   A) estimates the decrease in value of capital goods due to wear and tear over the year.
   B) is the reduction in business inventories per year.
   C) represents a firm's expenditure in adding to its capital stock.
   D) is the decline in the value of a firm's stock.

40. GDP is $7 trillion. If consumption is $3.5 trillion, investment is $1.4 trillion, and government purchases are $2.1 trillion, then
   A) exports are equal to imports.
B) exports exceed imports.
C) imports exceed exports.
D) net exports cannot be determined from the available information.

Answers
1) D
2) C
3) D
4) C
5) C
6) C
7) B
8) C
9) B
10) D
11) A
12) B
13) C
14) A
15) C
16) D
17) A
18) D
19) B
20) C
21) B
22) A
25 B
26 D
27 A
28 B
29 B
30 C
31 A
32 D
33 D
34 B
35 A
36 C
37 C
38 D
39 A
40 A