

Name: \_\_\_\_\_ Date: \_\_\_\_\_

1. The statistic used by economists to measure the value of economic output is:
  - A) the CPI.
  - B) GDP.
  - C) the GDP deflator.
  - D) the unemployment rate.
  
2. Two equivalent ways to view GDP are as the:
  - A) total payments made to all workers in the economy or the total profits of all firms and businesses in the economy.
  - B) total expenditures on all goods produced in the economy or the total income earned from producing all services in the economy.
  - C) total profits of all firms and businesses in the economy or the total consumption of goods and services by all households in the economy.
  - D) total income of everyone in the economy or the total expenditure on the economy's output of goods and services.
  
3. Which of the following is a flow variable?
  - A) wealth
  - B) the number unemployed
  - C) government debt
  - D) income
  
4. Which of the following is a stock variable?
  - A) wealth
  - B) consumption
  - C) investment
  - D) income
  
5. Assume that total output consists of 4 apples and 6 oranges and that apples cost \$1 each and oranges cost \$0.50 each. In this case, the value of GDP is:
  - A) 10 pieces of fruit.
  - B) \$7.
  - C) \$8.
  - D) \$10.

6. Since GDP includes only the additions to income, not transfers of assets, \_\_\_\_\_ are *not* included in the computation of GDP.
- A) final goods
  - B) used goods
  - C) consumption goods
  - D) goods produced for inventory
7. When bread is baked but put away for later sale, this is called:
- A) waste.
  - B) saving.
  - C) fixed investment.
  - D) investment in inventory.
8. Assume that a rancher sells McDonald's a quarter-pound of meat for \$1 and that McDonald's sells you a hamburger made from that meat for \$2. In this case, the value included in GDP should be:
- A) \$0.50.
  - B) \$1.
  - C) \$2.
  - D) \$3.
9. The best measure of the economic satisfaction of the members of a society is:
- A) nominal GDP.
  - B) real GDP.
  - C) the rate of inflation.
  - D) the value of corporate profits.
10. Real GDP is a better measure of economic well-being than nominal GDP, because real GDP:
- A) excludes the value of goods and services exported abroad.
  - B) includes the value of government transfer payments.
  - C) measures changes in the quantity of goods and services produced by holding prices constant.
  - D) adjusts the value of goods and services produced for changes in the foreign exchange rate.

11. If GDP (measured in billions of current dollars) is \$5,465, consumption is \$3,657, investment is \$741, and government purchases are \$1,098, then net exports are:
- A) \$131.
  - B) □131.
  - C) \$31.
  - D) □31.
12. If real GDP grew by 6 percent and population grew by 2 percent, then real GDP per person grew by approximately \_\_\_\_\_ percent.
- A) 2
  - B) 3
  - C) 4
  - D) 8
13. *All* of the following actions are investments in the sense of the term used by macroeconomists *except*:
- A) IBM's building a new factory.
  - B) corner candy store's buying a new computer.
  - C) John Smith's buying a newly constructed home.
  - D) Sandra Santiago's buying 100 shares of IBM stock.
14. GNP equals GDP \_\_\_\_\_ income earned domestically by foreigners \_\_\_\_\_ income that nationals earn abroad.
- A) plus; plus
  - B) minus; minus
  - C) minus; plus
  - D) plus; minus
15. The largest component of national income is:
- A) corporate profits.
  - B) compensation of employees.
  - C) proprietors' income.
  - D) net interest.

16. The CPI is determined by computing:
- A) an average of prices of all goods and services.
  - B) the price of a basket of goods and services that changes every year, relative to the same basket in a base year.
  - C) the price of a fixed basket of goods and services, relative to the price of the same basket in a base year.
  - D) nominal GDP relative to real GDP.
17. Unlike the GDP deflator, the CPI includes the prices of:
- A) goods purchased by firms.
  - B) goods purchased by governments.
  - C) exported goods.
  - D) imported goods.
18. City A has a total population of 10 million, of which 70 percent are adults. Assume that 20 percent of the adult population is not looking for a job and 60 percent of the remaining adult population is employed. Compute:
- a. Labor-force participation rate
  - b. Unemployment Rate

Textbookm questions (page 44-45, Problems and applications): Question # 1 and #11