

- Households derive income from all of the following except:
 - wages or labor income.
 - interest from lending.
 - rent from allowing firms to use their land.
 - imports.

Use the following to answer questions 2-6:

Figure: Circular-Flow Model



- (Figure: Circular-Flow Model) What is GDP in this economy?
 - \$100
 - \$400
 - \$500
 - \$600

- (Figure: Circular-Flow Model) If the circular-flow model is in equilibrium (the sum of money flowing into each box is equal to the sum of the money flowing out of that box), which of the following is likely to happen if there is an increase in consumer spending?
 - an increase in the nominal GDP
 - a decrease in the nominal GDP
 - an increase in the unemployment rate
 - a decrease in the inflation rate

4. (Figure: Circular-Flow Model) If the circular-flow model is in equilibrium (the sum of money flowing into each box is equal to the sum of the money flowing out of that box), which of the following is likely to happen if there is an increase in government spending?
- A) an increase in the nominal GDP
 - B) a decrease in the real GDP
 - C) an increase in the unemployment rate
 - D) a decrease in the inflation rate
5. (Figure: Circular-Flow Model) How does the government finance its purchases of goods and services?
- A) by printing money
 - B) by taxes
 - C) by borrowing
 - D) by taxes and borrowing
6. (Figure: Circular-Flow Model) What are net exports in this economy?
- A) \$0
 - B) \$30
 - C) \$60
 - D) \$100
7. Goods that are produced domestically but sold abroad are:
- A) imports.
 - B) exports.
 - C) part of domestic consumption.
 - D) investment.
8. An example of a government transfer is a(n):
- A) expenditure on an interstate highway.
 - B) bequest from a deceased relative.
 - C) Social Security payment.
 - D) salary for a member of the armed forces.
9. Investment spending is:
- A) spending on productive physical capital.
 - B) spending on bonds.
 - C) spending on shares of stock.
 - D) spending on productive physical capital, on bonds, and on shares of stock.

10. Purchases of foreign-produced goods and services are:
- A) net exports.
 - B) exports.
 - C) imports.
 - D) transfer payments.
11. Inventory investment is counted as investment because:
- A) inventory is used for future production.
 - B) inventory is a source of future sales.
 - C) inventory has no opportunity cost.
 - D) inventory is tax deductible.
12. A laptop computer that is purchased by an accounting firm is considered to be:
- A) consumption spending.
 - B) investment spending.
 - C) private saving.
 - D) a pretax dividend.
13. Households receive income in the form of all of the following EXCEPT:
- A) wages.
 - B) dividends.
 - C) interest and rent.
 - D) investment spending.
14. The GDP deflator is:
- A) a price index.
 - B) equal to 100 in the base year.
 - C) the ratio of real GDP for year X divided by nominal GDP for year X $\times 100$.
 - D) a measure that tracks price changes for consumer goods.
15. Real per capita GDP is:
- A) real GDP divided by the population.
 - B) real GDP divided by the amount of capital available in the economy.
 - C) not a good useful measure of human welfare.
 - D) rarely used as a tool to compare countries' possible resources.