

PRINCIPLES OF MACROECONOMICS

FALL 08

Homework 1

DUE 09/09/08

Answer all questions using a scantron. I will only receive scantrons for these questions.

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
- simply sum the number of final goods and services.
 - sum the cost of producing final goods and services.
 - use weights determined by a survey regarding how much people value different sorts of goods and services to compute GDP as a weighted average.
 - sum the market values of final goods and services.
- _____ 8. Which of the following is not included in GDP?
- unpaid cleaning and maintenance of houses
 - services such as those provided by lawyers and hair stylists
 - the estimated rental value of owner-occupied housing
 - 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.
- GDP necessarily increases.
 - GDP necessarily decreases.
 - GDP is unaffected because neither the rent nor the estimate of the value of housing services is included in GDP.
 - 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,
- increased measured GDP.
 - reduced measured GDP.
 - did not affect measured GDP.
 - 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 change the oil for her GDP
- necessarily rises.
 - necessarily falls.
 - will be unaffected because the same service is produced in either case.
 - 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
- necessarily raises GDP.
 - necessarily decreases GDP.
 - doesn't change GDP because gambling is never included in GDP.
 - doesn't change GDP because in either case his income is included.
- _____ 13. If a state made an illegal activity such as gambling or prostitution legal, then other things the same GDP
- necessarily increases.
 - necessarily decreases.
 - doesn't change because both legal and illegal production are included in GDP.
 - doesn't change because these activities are never included in GDP.
- _____ 14. GDP
- includes the value of intermediate goods so we can get a measure of sales.
 - excludes the value of intermediate goods because they are too difficult to measure.
 - excludes the value of intermediate goods because their value is already counted in the value of final goods.
 - None of the above are correct.

- _____ 15. The total sales of all firms in the economy for a year
- equals GDP for the year.
 - is larger than GDP for the year.
 - is smaller than GDP for the year.
 - equals GNP for the year.
- _____ 16. Grapes are
- always counted as an intermediate good.
 - counted as an intermediate good only if they are used to produce another good like wine.
 - counted as an intermediate good only if they are consumed.
 - counted as an intermediate good whether they are used to produce another good or consumed.
- _____ 17. Flour is
- always counted as an intermediate good.
 - counted as an intermediate good if it is used by a company to make bread.
 - counted as a final good if it is used by a consumer who bakes bread for his own consumption.
 - Both b and c are correct.
- _____ 18. Gasoline is
- always considered an intermediate good.
 - counted as a final good if a company uses it to provide transportation services.
 - counted as a final good if a consumer uses it to run a lawnmower to mow her yard.
 - Both b and c are correct.
- _____ 19. The local Chevrolet dealership has an increase in inventory of 25 cars in 2003. In 2004 it sells all 25 cars.
- 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.
 - The value of the increased inventory will not affect 2003 GDP, but will be included in 2004 GDP.
 - 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.
 - None of the above are correct.
- _____ 20. 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.
- The 2004 sale increases 2004 GDP by \$225,000 and does nothing to 2003 GDP.
 - The 2004 sale increases 2004 GDP by \$25,000 and does nothing to 2003 GDP.
 - The 2004 sale does not increase 2004 GDP and does nothing to 2003 GDP.
 - The 2004 sale increases 2004 GDP by \$225,000 and 2003 GDP is revised upward by \$25,000.
- _____ 21. Anna, a U.S. citizen, works only in Germany. The value added to production from her employment is included
- only in U.S. GDP.
 - only in German GDP.
 - in both German and U.S. GDP.
 - in neither German nor U.S. GDP.
- _____ 22. An American company owns a fast food restaurant in Romania. The value of goods and services it produces is included
- in both Romanian and U.S. GDP.
 - partly in Romanian GDP and partly in U.S. GDP.
 - in Romanian GDP, but not U.S. GDP.
 - in U.S. GDP, but not Romanian GDP.

- _____ 23. Which of the following is included in GDP?
- the sale of stocks and bonds
 - the sale of used goods
 - the sale of services such as visits to a doctor
 - All of the above are correct.
- _____ 24. Which of the following is included in U.S. GDP?
- goods produced by foreign citizens working in the United States
 - the difference in the price of the sale of an existing home and its original purchase price
 - known illegal activities
 - None of the above are correct.
- _____ 25. In computing GDP, investment is spending on
- stocks, bonds, and other financial assets.
 - real estate and financial assets.
 - new capital equipment, inventories, and structures, including new housing.
 - capital equipment, inventories, and structures, excluding household purchases of new housing.
- _____ 26. Government purchases include spending on goods and services by
- the federal government only.
 - state and federal governments only.
 - local, state and federal governments.
 - local and state governments, but not the federal government.
- _____ 27. If you buy a burger and fries at your favorite fast food restaurant
- neither GDP nor consumption spending will be affected because you would have eaten at home if you hadn't eaten at the restaurant.
 - GDP will be higher, but consumption spending will be unchanged.
 - GDP will be unchanged, but consumption spending will be higher.
 - both GDP and consumption spending will be higher.
- _____ 28. When a firm produces consumer goods and adds some to inventory rather than selling it. It is
- not counted in the current quarter GDP.
 - counted in the current quarter GDP as investment.
 - counted in the current quarter GDP as consumption.
 - counted in the current quarter GDP as a statistical discrepancy.
- _____ 29. A Minnesota farmer buys a new tractor made in Iowa by a German company. As a result
- U.S. investment and GDP increase, but German GDP is unaffected.
 - U.S. investment and German GDP increase, but U.S. GDP is unaffected.
 - U.S. investment, U.S. GDP, and German GDP are unaffected, because tractors are intermediate goods.
 - U.S. investment, U.S. GDP, and German GDP all increase.
- _____ 30. If a U.S. household buys a \$75 handbag from Italy, U.S. consumption increases by \$75, U.S.
- imports increase by \$75, and U.S. GDP increases by \$75.
 - imports increase by \$75, but U.S. GDP is unaffected.
 - imports are unaffected, and U.S. GDP is unaffected.
 - exports increase by \$75, and U.S. GDP increases by \$75.

- _____ 31. A transfer payment is
- a payment for moving expenses a worker receives when he or she is transferred by an employer to a new location.
 - a payment that is automatically transferred from your bank account to pay your utility bill.
 - the term that is used to indicate that your paycheck has been automatically deposited to your bank account.
 - a form of government spending that is not made in exchange for a currently produced good or service.
- _____ 32. 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
- each payment will be included in GDP as government purchases for the respective years.
 - the 2003 payment is included in 2003 GDP as government purchases, but the 2004 payment is not included in 2004 GDP.
 - the 2003 payment is included in 2003 GDP as government purchases, and the 2004 payment is included in 2004 GDP as government transfer payments.
 - 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.
- _____ 33. Transfer payments are
- included in GDP because they represent income to individuals.
 - not included in GDP because they are not payments for currently produced goods or services.
 - included in GDP because the income will be spent for consumption.
 - not included in GDP because taxes will have to be raised to pay for them.
- _____ 34. Which of the following is included in the Consumption component of GDP?
- Social Security payments
 - purchases of foreign goods and services
 - purchases of newly constructed homes
 - All of the above are correct.
- _____ 35. Which of these would NOT be included in the component(s) listed after them?
- Mary buys a skateboard manufactured in Germany-U.S. consumption and U.S. imports.
 - Shelly adds DVDs produced in the United States to her inventory-U.S. investment.
 - Emily receives her Social Security check-U.S. government expenditures.
 - None of the above are correct.
- _____ 36. 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
- GDP per person.
 - the consumption component of GDP.
 - government expenditures per person.
 - the level of business investment.

- ___ 37. 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?

Country	Nominal GDP 2000	Population 2000
Kenya	\$10,400 million	30.1 million
Tanzania	\$9,000 million	33.7 million
Zimbabwe	\$7,200 million	12.6 million

- a. Kenya, Tanzania, Zimbabwe
 - b. Kenya, Zimbabwe, Tanzania
 - c. Zimbabwe, Kenya Tanzania
 - d. Zimbabwe, Tanzania, Kenya
- ___ 38. International studies of the relationship between GDP per person and quality of life measures such as life expectancy and literacy rates show that larger GDP per person is associated with
- a. longer life expectancy and a lower percentage of the population that is literate.
 - b. longer life expectancy and a higher percentage of the population that is literate.
 - c. very nearly the same life expectancy and a lower percentage of the population that is literate.
 - d. very nearly the same life expectancy and a higher percentage of the population that is literate.
- ___ 39. International GDP and socioeconomic data
- a. are inconclusive about the relationship between GDP and the economic well-being of citizens.
 - b. suggest that poor nations actually might enjoy a higher standard of living than do rich nations.
 - c. leave no doubt that a nation's GDP is closely associated with its citizens' standard of living.
 - d. indicate that there are few real differences in living standards around the world, in spite of the large differences in GDP between nations.

True/False

Indicate whether the sentence or statement is true or false.

- ___ 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.