

**Indian Institute of Technology
Department of Economics
HS 101: Macro Economics QUIZ**

Max. Marks: (30x0.5=15 marks)

Time: 11.50 a.m – 12.25 p.m

Name:

Date: 27th Mar 2023

Roll #

Department:

VERSION A

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- **Circle only the best alternative that is correct. If you circle more than one alternative, it will be considered as a wrong answer.**
 - **For every wrong answer, 0.25 marks will be deducted.**
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1. A nation's gross domestic product (GDP)

- A. can be found by summing $C + Ig + G + Xn$.
- B. is the dollar value of the total output produced by its citizens, regardless of where they are living.
- C. can be found by summing $C + S + G + Xn$.
- D. is always some amount less than its NDP.

2. National income accountants can avoid multiple counting by

- A. including transfer payments in their calculations.
- B. only counting final goods.
- C. counting both intermediate and final goods.
- D. only counting intermediate goods.

3. Which of the following is a final good or service?

- A. a haircut purchased by a father for his 12-year-old son
- B. fertilizer purchased by a farm supplier
- C. diesel fuel bought for a delivery truck
- D. Chevrolet windows purchased by a General Motors assembly plant

4. Value added can be determined by

- A. summing the profits of all enterprises in the economy.
- B. subtracting the purchase of intermediate products from the value of the sales of final products.
- C. calculating the year-to-year changes in real GDP.
- D. deflating nominal GDP.

5. The concept of net domestic investment refers to

- A. the amount of machinery and equipment used up in producing the GDP in a specific year.
- B. the difference between the market value and book value of outstanding capital stock.
- C. gross domestic investment less net exports.
- D. total investment less the amount of investment goods used up in producing the year's output.

6. In national income accounting, the consumption category of expenditures includes purchases of

- A. both new and used consumer goods.
- B.** automobiles for personal use but not houses.
- C. consumer durable and nondurable goods but not services.
- D. consumer nondurable goods and services but not consumer durable goods.

7. Consumption of fixed capital (depreciation) can be determined by

- A. adding taxes on production and imports to NDP.
- B.** subtracting NDP from GDP.
- C. subtracting net investment from GDP.
- D. adding net investment to gross investment.

8. The amount of after-tax income received by households is measured by

- A. discretionary income.
- B. national income.
- C.** disposable income.
- D. personal income.

9. Historically, real GDP has increased less rapidly than nominal GDP because

- A. price indices have not reflected improvements in product quality.
- B.** the general price level has increased.
- C. technological progress has resulted in more efficient production.
- D. the general price level has decreased.

10. Which of the following is not a component of GDP in the expenditures approach?

- A. government purchases
- B.** workers' wages and other compensation
- C. gross private domestic investment
- D. the difference between exports and imports

11. The value of corporate stocks and bonds traded in a given year is

- A. included in the calculation of GDP because they make a contribution to the current production of goods and services.
- B.** excluded from the calculation of GDP because they make no contribution to current production of goods and services.
- C. included in the calculation of net private domestic investment.
- D. included in the calculation of gross private domestic investment.

12. Disinvestment occurs when

- A. businesses sell machinery and equipment to one another.
- B. the prices of investment goods rise faster than the prices of consumer goods.
- C. businesses have larger inventories at the end of the year than they had at the start.
- D.** the consumption of private fixed capital exceeds gross private domestic investment

13. "Corporate profits" in the national income accounts consists of the following, except

- A. retained earnings.
- B.** interest.
- C. dividends.
- D. corporate income taxes

14. The GDP deflator or price index equals

- A. gross private domestic investment less the consumption of fixed capital.
- B. gross national product less net foreign factor income earned in the United States.
- C.** nominal GDP divided by real GDP.
- D. real GDP divided by nominal GDP.

15. GDP tends to underestimate the productive activity in the economy because it excludes the value of output from

- A. public transfer payments to households.
- B. the consumption of fixed capital.
- C.** the underground economy.
- D. intermediate goods.

16. The inflation rate is calculated

- A. by determining the change in the price index from the preceding period.
- 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. GDP measured using current prices is called

- A.** nominal GDP.
- B. real GDP.
- C. constant GDP.
- D. deflated GDP.

18. What basket of goods and services is used to construct the CPI?
- A. a random sample of all goods and services produced in the economy
 - B. the goods and services that are typically bought by consumers as determined by government surveys**
 - C. only food, clothing, transportation, entertainment, and education
 - D. the least expensive and the most expensive goods and services in each major category of consumer expenditures

19. Which of the following is the correct formula for calculating the inflation rate?

- A. $\frac{\text{CPI in year 1} - \text{CPI in year 2}}{\text{CPI in year 2}} \times 100$
- B. $\frac{\text{CPI in year 1}}{\text{CPI in year 2}} \times 100$
- C. $\frac{\text{CPI in year 2} - \text{CPI in year 1}}{\text{CPI in year 1}} \times 100$**
- D. $\frac{\text{CPI in year 2}}{\text{CPI in year 1}} \times 100$

Answer: C

20. In the basket of goods that is used to compute the consumer price index, which of the following categories of consumer spending is the largest?

- A. education & communication
- B. recreation
- C. Food**
- D. All of the above categories are about equal in magnitude.

21. Which of the following is *not* a widely acknowledged problem with using the CPI as a measure of the cost of living?

- A. substitution bias
- B. introduction of new goods
- C. unmeasured quality change
- D. unmeasured price change**

22. The substitution bias in the consumer price index refers to the

- A. substitution by consumers toward new goods and away from old goods.
- B. substitution by consumers toward a smaller number of high-quality goods and away from a larger number of low-quality goods.
- C. substitution by consumers toward goods that have become relatively less expensive and away from goods that have become relatively more expensive.**
- D. substitution of new prices for old prices in the CPI basket of goods and services from one year to the next.

23. By not taking into account the possibility of consumer substitution, the CPI
- A. understates the cost of living.
 - B. overstates the cost of living.**
 - C. may overstate or understate the cost of living, depending on how quickly prices rise.
 - D. may overstate or understate the cost of living, regardless of how quickly prices rise.
24. When new goods are introduced, consumers have more variety from which to choose. As a result, each dollar is worth
- A. more, and the cost of living increases.
 - B. more, and the cost of living decreases.**
 - C. less, and the cost of living increases.
 - D. less, and the cost of living decreases.
25. To which of the problems in the construction of the CPI is the creation of the mobile phone most relevant?
- A. substitution bias
 - B. introduction of new goods**
 - C. unmeasured quality change
 - D. income bias
26. The CPI differs from the GDP deflator in that
- A. the CPI is an inflation index, while the GDP deflator is a price index.
 - B. substitution bias is not a problem with the CPI, but it is a problem with the GDP deflator.
 - C. increases in the prices of foreign produced goods that are sold to U.S. consumers show up in the GDP deflator but not in the CPI.
 - D. increases in the prices of domestically produced goods that are sold to the U.S. government show up in the GDP deflator but not in the CPI.**
27. If the price of Italian shoes imported into the United States increases, then
- A. both the GDP deflator and the consumer price index will increase.
 - B. neither the GDP deflator nor the consumer price index will increase.
 - C. the GDP deflator will increase, but the consumer price index will not increase.
 - D. the consumer price index will increase, but the GDP deflator will not increase.**
28. Which of the following statements about real and nominal interest rates is correct?
- A. Real interest rates can be either positive or negative, but nominal interest rates must be positive.
 - B. Real interest rates and nominal interest rates must be positive.
 - C. Real interest rates must be positive, but nominal interest rates can be either positive or negative.
 - D. Real interest rates and nominal interest rates can be either positive or negative.**

29. If the nominal interest rate is 6 percent and the rate of inflation is 2 percent, then the real interest rate is

- A. -4 percent.
- B. 3 percent
- C. **4 percent.**
- D. 8 percent.

30. Tom and Lilly rented a house for \$12,000 last year. At the start of the year they bought the house they had been renting directly from the owner for \$250,000. They believe they could rent it for \$12,000 this year, but stay in the house. How much does Tom and Lilly's decision to buy the house change GDP?

- A. it reduces GDP by \$12,000
- B. **it does not change GDP**
- C. it raises GDP by \$238,000
- D. it raises GDP by \$250,000