

Quiz 2

Maximum Marks: 10

17 October 2024

Time: 1540-1625 Hours

NAME: _____

ROLL NUMBER: _____

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For questions 1-20, select the correct option and record your answer in the table provided on page 4.

Any answers recorded alongside the questions (pages 1-3) will NOT be checked.

All questions carry equal marks.

1. Which of the following statements is correct?
 - a. The value of all intermediate goods and final goods is included in GDP.
 - b. The value of intermediate goods is included in GDP only if those goods were produced in the previous year.
 - c. The value of intermediate goods is included in GDP only if those goods are added to firms' inventories to be used or sold at a later date.
 - d. The value of intermediate goods is never included in GDP.
2. Which of the following items is included in GDP?
 - a. the sale of stocks and bonds
 - b. the estimated rental value of owner-occupied housing
 - c. unpaid production of goods and services at home
 - d. All of the above are included in GDP.
3. A country reported a nominal GDP of \$115 billion in 2006 and \$125 billion in 2005; it reported a GDP deflator of 85 in 2006 and a deflator of 100 in 2005. Between 2005 and 2006,
 - a. real output and the price level both rose.
 - b. real output rose and the price level fell.
 - c. real output fell and the price level rose.
 - d. real output and the price level both fell.
4. Suppose an apartment complex converts to a condominium, so that the former renters are now owners of their housing units. Suppose further that a current estimate of the value of the condominium owners' housing services is the same as the rent they previously paid. What happens to GDP as a result of this conversion?
 - a. GDP necessarily increases.
 - b. GDP necessarily decreases.
 - c. GDP is unaffected because neither the rent nor the estimate of the value of housing services is included in GDP.
 - d. GDP is unaffected because previously the rent payments were included in GDP, and now the rent payments are replaced in GDP by the estimate of the value of housing services.
5. Goods that go into inventory and are not sold during the current period are
 - a. counted as intermediate goods and so are not included in current period GDP.
 - b. counted in current GDP only if the firm that produced them sells them to another firm.
 - c. included in current period GDP as inventory investment.
 - d. included in current period GDP as consumption.

6. Assume an economy experienced a higher inflation rate, as measured by the CPI, between 2004 and 2005 than it experienced between 2003 and 2004. Which of the following scenarios is consistent with this assumption?
 - a. The CPI was 100 in 2003, 110 in 2004, and 120 in 2005.
 - b. The CPI was 100 in 2003, 110 in 2004, and 124 in 2005.
 - c. The CPI was 110 in 2003, 150 in 2004, and 200 in 2005.
 - d. All of the above are correct.
7. The substitution bias in the consumer price index refers to the
 - a. substitution by consumers of new goods for old goods.
 - b. substitution by consumers of a smaller number of high-quality goods for a larger number of low-quality goods.
 - c. fact that consumers substitute toward goods that have become relatively less expensive.
 - d. substitution of new prices for old prices in the CPI basket of goods and services from one year to the next.
8. 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 much prices rise.
 - d. may overstate or understate the cost of living, regardless of the extent to which prices rise.
9. The consumer price index (CPI) and the GDP deflator are two alternative measures of the overall price level. Which of the following statements about the two measures is correct?
 - a. The CPI involves a base year; the GDP deflator does not involve a base year.
 - b. The CPI can be used to compute the inflation rate; the GDP deflator cannot be used to compute the inflation rate.
 - c. The CPI reflects the prices of goods and services produced domestically; the GDP deflator reflects the prices of all goods and services bought by consumers.
 - d. The CPI reflects a fixed basket of goods and services; the GDP deflator reflects current production of goods and services.
10. The 2005 CPI was 196 and the 1982 CPI was 96.5. If your parents put aside \$1,000 for you in 1982, how much would you have needed in 2005 in order to buy what you could have bought with the \$1,000 in 1982?
 - a. \$1,834.20
 - b. \$2,031.09
 - c. \$2,308.89
 - d. None of the above is correct.
11. Which of the following is considered human capital?
 - a. the comfortable chair in your dorm room where you read economics texts
 - b. the amount you get paid each week to work at the library
 - c. the things you have learned this semester
 - d. any capital goods that require a human to be present to operate
12. Technological knowledge refers to
 - a. human capital.
 - b. available information on how to produce things.
 - c. resources expended transmitting society's understanding to the labor force.
 - d. All of the above are technological knowledge.
13. Accumulating capital
 - a. requires that society sacrifice consumption goods in the present.
 - b. allows society to consume more in the present.
 - c. decreases saving rates.
 - d. has no tradeoffs.

14. If there are diminishing returns to capital, then
- capital produces fewer goods as it ages.
 - old ideas are not as useful as new ones.
 - increases in the capital stock eventually decrease output.
 - increases in the capital stock increase output by ever smaller amounts.
15. The catch-up effect refers to the idea that
- saving will always catch-up with investment spending.
 - it is easier for a country to grow fast and so catch-up if it starts out relatively poor.
 - population eventually catches-up with increased output.
 - if investment spending is low, increased saving will help investment to "catch-up."
16. Suppose that in a closed economy GDP is equal to 11,000, Taxes are equal to 1,500, Consumption equals 7,500, and Government purchases equal 2,000. What is national saving?
- 500
 - 0
 - 1500
 - None of the above is correct.
17. A bond is a
- financial intermediary.
 - certificate of indebtedness.
 - certificate of partial ownership in an enterprise.
 - None of the above is correct.
18. Fred sells newly issued bonds. Ethel sells newly issued stocks. Who uses direct finance?
- Only Fred.
 - Only Ethel.
 - Both Fred and Ethel.
 - Neither Fred nor Ethel.
19. People who buy newly issued stock in a corporation such as Crate and Barrel provide
- debt finance and so become part owners of Crate and Barrel.
 - debt finance and so become creditors of Crate and Barrel.
 - equity finance and so become part owners of Crate and Barrel.
 - equity finance and so become creditors of Crate and Barrel.
20. In the language of macroeconomics, investment refers to
- saving.
 - the purchase of new capital.
 - the purchase of stocks, bonds, or mutual funds.
 - All of the above are correct.

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Question	Option
1	C
2	B
3	B
4	D
5	C
6	B
7	C
8	B
9	D
10	B
11	C
12	B
13	A
14	D
15	B
16	C
17	B
18	C
19	C
20	B