Task for 27-10-2020

**GDP and Economic Growth**

* **FILL-IN QUESTIONS**

1. Gross domestic product (GDP) measures the total (market, nonmarket) **market** value of all (intermediate, final) **final** goods and services produced in a country (in 1 year, over 2 years) **in 1 year**.
2. GDP is a (monetary, nonmonetary) **monetary** measure that permits comparison of the (relative, absolute) **relative** worth of goods and services.
3. In measuring GDP, only (intermediate, final) **final** goods and services are included; if **intermediate** goods and services were included, the accountant would be (over-, under-) **over** stating GDP, or (single, multiple) **multiple** counting.
4. Personal consumption expenditures are the expenditures of households for goods such as automobiles, which are (durable, nondurable) **durable**, and goods such as food, which are **nondurable**, plus expenditures for (housing, services) **housing**.
5. Gross private domestic investment basically includes the final purchases of (capital, consumer) **capital** goods by businesses, all  
   (construction of new, sales of existing) **construction of new** buildings and houses, and changes in (services, inventories) **inventories**.
6. An economy’s *net* exports equal its exports (minus, plus) **minus** its imports. If exports are less than imports, net exports are (positive, negative) **negative**, but if exports are greater than imports, net exports are **positive**.
7. A GDP that reflects the prices prevailing when the output is produced is called unadjusted, or (nominal, real) **nominal** GDP, but a GDP figure that is deflated or inflated for price level changes is called adjusted or **real** GDP.
8. Economic growth is best measured either by an increase in (nominal, real) **real** GDP over a time period or by an increase in **real** GDP per capita over a time period. A rise in real  
    output per capita (increases, decreases) **increases** the standard of living and **decreases** the burden of scarcity in the economy.
9. Economic growth means that real output in the economy (increases, decreases) **increases** and produces a standard of living that is (higher, lower) **higher** with (more, less) **more** material abundance.
10. The four supply factors in economic growth are
    1. **Improvements in technology**
    2. **Increase in human resources**
    3. **Increase in natural resources**
    4. **Increase in the stock of capital goods**
11. To realize its growing production potential, a nation must fully employ its expanding supplies of resources, which is the (efficiency, demand) **demand** factor in economic growth, and it must also achieve productive and allocative **efficiency**, the other factor contributing to economic growth.
12. In the production possibilities model, economic growth increases primarily because of (demand, supply) **demand** factors that shift the production possibilities curve to the (left, right) **right**; but if there is less than full employment and production, the economy (may, may not) **may not** realize its potential.
13. Real GDP of any economy in any year is equal to the quantity of labor employed (divided, multiplied) **multiplied** by the productivity of labor. The quantity of labor is measured by the number of (businesses, hours of labor) **hours of labor**. Productivity is equal to real GDP per (capita, worker-hour) **worker-hour**.
14. The quantity of labor employed in the economy in any year depends on the size of the (unemployed, employed) **employed** labor force and the length of the average workweek. The size element depends on the size of the working-age population and the labor-force (unemployment, participation) **participation** rate.
15. Factors contributing to labor productivity include
    1. technological **advance**
    2. increases in the quantity of **capital** and in the quantity available per **worker**
    3. the improved education and **training** of workers
    4. economies of **scale**, and
    5. the improved **allocation** of resources.
    6. institutional **innovation**.
16. An increase in the quantity of the capital stock of a nation is the result of saving and (consumption, investment) **investment**. A key determinant of labor productivity is the amount of capital goods available per (consumer, worker) **worker**.
17. Infrastructure, such as highways and bridges, is a form of (private, public) **public** investment that complements **private** capital goods.
18. The knowledge and skills that make a productive worker are a form of (physical, human) **human** capital. This type of capital is often obtained through (consumption, education) **education**.
19. Reductions in per-unit costs that result from the increase in the size of markets and firms are called (improved resource allocation, economies of scale) **economies of scale**, but the movement of a worker from a job with lower productivity to one with higher productivity would be an example of **improved resource allocation**.

* **TRUE–FALSE QUESTIONS**

*Mark T if the statement is true, F if it is false.*

1. Gross domestic product measures at their market values the total output of all goods and services produced in the economy during a year. **True**
2. GDP includes the sale of intermediate goods and excludes the sale of final goods. **False**
3. The sale of stocks and bonds is excluded from GDP. True
4. Personal consumption expenditures only include expenditures for durable and nondurable goods. **False**
5. The expenditure made by a household to have a new home built is a personal consumption expenditure. **False**
6. Any increase in the inventories of business firms is included in gross private domestic investment. **True**
7. The net exports of an economy equal its exports of goods and services less its imports of goods and services. **False**
8. A GDP that has been deflated or inflated to reflect changes in the price level is called real GDP.

**True**

1. Economic growth is measured as either an increase in real GDP or an increase in real per capita GDP. **True**
2. The more useful of the two definitions of economic growth for comparing living standards across economies is an increase in real GDP per capita. **True**
3. The hours of labor input depend on the size of the employed labor force and the length of the average workweek. **True**
4. One determinant of labor productivity is the quantity of capital goods available to workers. **True**
5. The largest factor increasing labor productivity in the U.S. economy has been technological advance. **True**

* **MULTIPLE-CHOICE QUESTIONS**

*Circle the letter that corresponds to the best answer.*

1. Gross domestic product (GDP) is defined as
   1. personal consumption expenditures and gross private domestic investment
   2. the sum of wage and salary compensation of employees, corporate profits, and interest income
   3. the market value of final goods and services produced within a country in 1 year
   4. the market value of all final and intermediate goods and services produced by the economy in 1 year
2. GDP provides an indication of society’s valuation of the relative worth of goods and services because it
   1. provides an estimate of the value of secondhand sales
   2. gives increased weight to security transactions
   3. is an estimate of income received
   4. is a monetary measure
3. To include in GDP both the value of the parts used in producing a car during a year and the value of the car purchased by a consumer would be an example of
   1. a noninvestment transaction
   2. secondhand sales
   3. multiple counting
   4. depreciation
4. Which would be considered an investment according to economists?
   1. the purchase of newly issued shares of stock in Microsoft
   2. the construction of a new computer chip factory by Intel
   3. the resale of stock originally issued by the General Motors Corporation
   4. the sale of a retail department store building by Sears to Wal-Mart
5. A refrigerator was produced by its manufacturer in year 1 and sold to a retailer in year 1. The retailer then sold the refrigerator to a consumer in year 2. The refrigerator was counted as
   1. consumption in year 1
   2. savings in year 1
   3. investment in year 1
   4. secondhand sales in year 1
6. The annual charge that estimates the amount of capital equipment used up in each year’s production is called
   1. noninvestment transaction
   2. inventory reduction
   3. depreciation
   4. investment
7. GDP in an economy is $3452 billion. Consumer expenditures are $2343 billion, government purchases are $865 billion, and gross investment is $379 billion. Net exports are
   1. + $93 billion
   2. + $123 billion
   3. – $45 billion
   4. – $135 billion
8. Which is a benefit of real economic growth to a society?
   1. The society is less able to satisfy new wants.
   2. Everyone enjoys a greater nominal income.
   3. The burden of scarcity increases.
   4. The standard of living increases.
9. What is one major measure of economic growth?
   1. the supply of money
   2. the demand for money
   3. nominal GDP per capita
   4. real GDP per capita
10. Which is a demand factor in economic growth?
    1. an increase in the purchasing power of the economy
    2. an increase in the economy’s stock of capital goods
    3. more natural resources
    4. technological progress
11. The factor accounting for the largest increase in the productivity of labor in the United States has been
    1. economies of scale
    2. technological advance
    3. the quantity of capital
    4. the education and training of workers
12. An example of U.S. public investment in infrastructure would be
    1. an airline company
    2. a natural gas pipeline
    3. an auto and truck plant
    4. an interstate highway
13. Economists call the knowledge and skills that make a productive worker
    1. the labor-force participation rate
    2. learning by doing
    3. human capital
    4. infrastructure
14. The decline of discrimination in education and labor markets increased the overall rate of labor productivity in the economy by giving groups freedom to move from jobs with lower productivity to ones with higher productivity. This development would be an example of a(n)
    1. learning by doing
    2. economies of scale
    3. technological advance
    4. improvement in resource allocation
15. Increasing returns would be a situation where a firm
    1. triples its workforce and other inputs and its output doubles
    2. doubles its workforce and other inputs and its output triples
    3. doubles its workforce and other inputs and its output doubles
    4. quadruples its workforce and other inputs and its output triples

* **PROBLEMS**

1. Given the hypothetical data in the table below, calculate the annual rates of growth in real GDP and real per capita GDP over the period given. The numbers for real GDP are in billions.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **Real**  **GDP** | **Annual**  **growth in %** | **Real GDP per capita** | **Annual growth in %** |
| 1 | $2,416 |  | $11,785 |  |
| 2 | 2,472 | **1.99%** | 11,950 | **1.196%** |
| 3 | 2,563 | \_\_\_\_\_ | 12,213 | \_\_\_\_\_ |

1. Suppose the real GDP and the population of an economy in four different years were those shown in the following table.

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **Population, million** | **Real GDP, billions**  **of dollars** | **Per capita real GDP** |
| 1 | 30 | $ 9 | **$ 300** |
| 2 | 60 | 24 | **$ 400** |
| 3 | 90 | 45 | **$ 500** |
| 4 | 120 | 66 | **$ 550** |

* 1. How large would the real per capita GDP of the economy be in each of years 2, 3, and 4? Put your figures in the table.
  2. What was the *amount* of growth in real GDP between year 1 and year 2? **$** **15 billion**
  3. What was the rate of growth in real GDP between year 3 and year 4? **21.11%**