Chapter 5 Assignment

A 1. Which of the following most likely occurs when GDP falls?
   a. Income and expenditure must both fall.
   b. Income and expenditure can both rise.
   c. Income must fall, but expenditure may rise or fall.
   d. Expenditure must fall, but income may rise or fall.

C 2. Income equals expenditure because of which of the following?
   a. GDP does not include all expenditures.
   b. GDP does include all expenditures.
   c. The income of the seller must be equal to the expenditure of the buyer.
   d. The influence of governments on individual markets.

A 3. Suppose a province makes the production and sale of illicit drugs legal. Which of the following best describes the effect this will have on GDP?
   a. It must increase.
   b. It must decrease.
   c. It does not change.
   d. It may increase or decrease.

C 4. Suppose a government provides subsidies to encourage growth of small businesses. Which of the following best describes how the subsidies would relate to GDP?
   a. They would be included in GDP because they are invested by businesses.
   b. They would be included in GDP because they are a form of government spending.
   c. They would NOT be included in GDP because they are transfer payments.
   d. They may or may not be included in GDP, depending on how the funds are used.

A 5. Which of the following best defines gross domestic product?
   a. the market value of all final goods and services produced within a country in a given period of time
   b. the income in the hands of individuals after deducting income taxes
   c. the value of goods and services purchased by all levels of government
   d. the market value of all final goods and services produced by permanent residents

C 6. GDP includes which of the following?
   a. final goods
   b. intermediate goods
   c. final good and services.
   d. intermediate goods and services

C 7. Macroeconomics is the branch of economics that studies which of the following?
   a. the conditions of individual markets
   b. the influence of governments on individual markets
   c. economy-wide phenomena
   d. only the private sector of the economy

C 8. Suppose that nominal GDP is $6,000 billion, and real GDP is $3,000. What is the GDP deflator?
   a. 125
   b. 150
   c. 200
   d. 250

C 9. The purchase of final goods and services by households is called which of the following?
   a. investment
   b. public sector expenditure
   c. consumption
   d. net exports

A 10. Investment is the purchase of capital equipment, inventories, and which of the following?
   a. structures
   b. non-durable goods
   c. depreciation
   d. import investment

C 11. Which of the following best describes how transfer payments relate to GDP?
   a. They are included in GDP because they are forms of income.
   b. They are included in GDP because goods and services have been produced in the transfer.
   c. They are NOT included in the GDP because goods and services have not been produced in the transfer.
   d. They are included in GDP because they represent the production of transfers of goods and services to foreign countries.

C 12. Which of the following would be considered consumption expenditure?
   a. The Smiths buy a home built in 1990.
   b. The federal government pays the salary of a captain in the armed forces.
   c. The Hostlers buy a new car that was manufactured in Germany.
   d. The government buys food for its armed forces.

C 13. Which of the following is the name of the method that measures GDP in relationship to the size of the population?
   a. GNP
   b. worker GDP
   c. GDP per person
   d. capital GDP

D 14. The components of GDP are which of the following?
   a. C + I + G
   b. NX + G + C
   c. C + G + NX
   d. C + I + G + NX

B 15. Suppose nominal GDP is $7700 and the GDP deflator is 110. Real GDP is which of the following?
   a. $7700
   b. $7000
   c. $847,000
   d. $8470

True or False?

T 16. The circular flow-diagram describes all transactions between households and firms in a simple economy and shows the equality of expenditures and income.

F 17. Gross domestic product includes most items produced and sold illicitly.

F 18. The purchase of new houses by households is included in the calculation of personal consumption expenditures of GDP.

19. List the four components of GDP and give an example of each (your examples should not be the same examples that are in the class notes).

C: household purchase an ipad I: TD bank builds a new office
G: Gov't plan trees in Burnaby mountain NX: Canadian farmers sell wheat to Mexico

20. What is the difference between real GDP and nominal GDP?

Real GDP value the g&s at constant prices whereas Nominal GDP value the g&s at current year price. Real GDP is corrected for inflation while nominal GDP is not.

21. If you buy a $20,000 Toyota that was fully produced in Japan, does this affect Canadian GDP? Show how this transaction would affect the appropriate expenditure components of GDP.

Not it doesn't.

$Y = C + I + G + EX - IM$

$-\$20K \qquad \$20K$

22. How will the following affect Canadian GDP? Indicate how much Y will change as well as how each of the components of GDP will change. Use (+) or (-) to indicate if the change is an increase or decrease. If there is no change write 0.

a. Mike buys $5 worth of bananas.
b. Gerry, an American visiting Vancouver, buys a $20 bottle of maple syrup to consume during his visit. The syrup was produced this year.
c. Allison runs a furniture manufacturing business. She produces 1000 tables this year and sells 1200 tables this year. Each table is worth $100.
d. The government spends $200,000 on new carpet for the parliament buildings.
e. Stephanie, a Canadian living in New York city, orders $40 of smoked salmon to be shipped from a deli in Toronto which makes smoked salmon fresh daily.
f. Mel buys 4 Blackberry phones for her employees to use. Each phone cost $200 and was produced this year.

	Y	C	I	G	NX
a)	+$5	+$5			
b)	+$20	+20			
c)	+$100K		+$120K −$20K		
d)	+$200K			+$200K	
e)	+$40				+$40
f)	+$800		+$800		

23. Sportsland produces two goods: footballs and basketballs. Below is a table showing prices and quantities of output for three years:

Year	Price of Footballs	Quantity of Footballs	Price of Basketballs	Quantity of Basketballs
Year 1	$10	120	$12	200
Year 2	$12	200	$15	300
Year 3	$14	180	$18	275

Do the following calculations:

Nominal GDP in Year 1 = $\$10 \times 120 + \$12 \times 200 = \$3600$

Nominal GDP in Year 2 = $\$12 \times 200 + \$15 \times 300 = \$6900$

Nominal GDP in Year 3 = $\$14 \times 180 + \$18 \times 275 = \$7470$

Using Year 1 as the Base Year:

Real GDP in Year 1 = $\$10 \times 120 + \$12 \times 200 = \$3600$

Real GDP in Year 2 = $\$10 \times 200 + \$12 \times 300 = \$5600$

Real GDP in Year 3 = $\$10 \times 180 + \$12 \times 275 = \$5100$

GDP deflator for Year 1 = $\frac{3600}{3600} \times 100 = 100$

GDP deflator for Year 2 = $\frac{6900}{5600} \times 100 = 123.21$

GDP deflator for Year 3 = $\frac{7470}{5100} \times 100 = 146.47$

Rate of inflation for year 2 = $\frac{123.21 - 100}{100} \times 100\% \doteq 23.21\%$

Rate of inflation for year 3 = $\frac{146.47 - 123.21}{123.21} \times 100\% \doteq 18.88\%$