

## Measuring the Nation's Income

**Problem 1.** Which of the following statements about GDP is correct?

- (a) GDP measures two things at once: the total income of everyone in the economy and the total expenditure on the economy's output of goods and services.
- (b) Money continuously flows from households to firms and then back to households, and GDP measures this flow of money.
- (c) GDP is generally regarded as the best single measure of a society's economic well-being.
- (d) All of the above are correct.

**Problem 2.** Over the last few decades, Americans have chosen to cook less at home and eat more at restaurants. This change in behavior, by itself, has

- (a) reduced measured GDP.
- (b) not affected measured GDP.
- (c) increased measured GDP by the value of the restaurant meals.
- (d) increased measured GDP by the value added by the restaurants' preparation and serving of the meals.

**Problem 3.** Gasoline is considered a final good if it is sold by a

- (a) gasoline station to a bus company that operates a bus route between San Francisco and Los Angeles.
- (b) pipeline operator to a gasoline station in San Francisco.
- (c) gasoline station to a motorist in Los Angeles.
- (d) All of the above are correct.

**Problem 4.** Which of the following transactions adds to U.S. GDP for 2015?

- (a) In 2015, Ann sells a car that she bought in 2011 to Bill for \$7,000.
- (b) An American management consultant works in Canada during the summer of 2015 and earns the equivalent of \$40,000 during that time.
- (c) When Ken and Kim were both single, they lived in separate apartments and each paid \$800 in rent. Ken and Kim got married in 2015 and they bought a previously unoccupied house that, according to reliable estimates, could be rented for \$1,700 per month.
- (d) None of the above transactions adds to U.S. GDP for 2015.

**Problem 5.** Which of the following is included in the consumption component of U.S. GDP?

- (a) purchases of staplers, paper clips, and pens by U.S. business firms
- (b) purchases of natural gas by U.S. households
- (c) purchases of newly constructed homes by U.S. households
- (d) All of the above are correct.

**Problem 6.** Transfer payments

- (a) are payments that flow from government to households.
- (b) are not made in exchange for currently produced goods or services.
- (c) alter household income, but they do not reflect the economy's production.
- (d) All of the above are correct.

**Problem 7.** A U.S. grocery chain purchases olive oil from Tunisia and sells it to U.S. consumers. In which of the following is this transaction included?

- (a) U.S. consumption and U.S. imports
- (b) U.S. consumption but not U.S. imports
- (c) U.S. imports but not U.S. consumption
- (d) neither U.S. consumption nor U.S. imports

**Problem 8.** Which of the following always uses prices and quantities from the same period?

- (a) both nominal and real GDP.
- (b) nominal GDP but not real GDP.
- (c) real GDP but not nominal GDP.
- (d) neither nominal or real GDP.

**Problem 9.** A country reported nominal GDP of \$115 billion in 2010 and \$125 billion in 2009. It also reported a GDP deflator of 85 in 2010 and 100 in 2009. Between 2009 and 2010,

- (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.

## Measuring the Cost of Living

**Problem 10.** In the calculation of the CPI, books are given greater weight than magazines if

- (a) consumers buy more books than magazines.
- (b) the price of books is higher than the price of magazines.
- (c) it costs more to produce books than it costs to produce magazines.
- (d) books are more readily available than magazines to the typical consumer.

**Problem 11.** If the consumer price index was 96 in 2012, 100 in 2013, and 102 in 2014, then the base year must be

- (a) 2012.
- (b) 2013.
- (c) 2014.
- (d) The base year cannot be determined from the given information.

**Problem 12.** If the CPI was 108.00 in 1942 and is 336.96 today, then \$10 in 1942 purchased the same amount of goods and services as

- (a) \$2.57 purchases today.
- (b) \$28.89 purchases today.
- (c) \$31.20 purchases today.
- (d) \$38.89 purchases today.

**Problem 13.** John just graduated law school and has two competing job offers. The first is in Phoenix and pays a salary of \$150,000. He has a similar job offer in Cleveland that pays \$90,000. Which pair of CPIs would make the two salaries have the same purchasing power?

- (a) 70 in Phoenix and 42 in Cleveland
- (b) 68 in Phoenix and 34 in Cleveland
- (c) 42 in Phoenix and 70 in Cleveland
- (d) 34 in Phoenix and 68 in Cleveland

**Problem 14.** If the nominal interest rate is 4 percent and the real interest rate is 7 percent, then the inflation rate is

- (a) -3 percent.
- (b) 0.75 percent.
- (c) 3 percent.
- (d) 11 percent.

**Problem 15.** Corey deposits \$1,000 in a savings account that pays an annual interest rate of 5 percent. Over the course of a year, the inflation rate is 1.7 percent. At the end of the year, Corey has

- (a) \$17 more in his account, and his purchasing power has increased by \$10.
- (b) \$30 more in his account, and his purchasing power has increased by \$50.
- (c) \$40 more in his account, and his purchasing power has increased by \$33.
- (d) \$50 more in his account, and his purchasing power has increased by \$33.