

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 restaurant's 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.