

University of Lethbridge — Department of Economics  
ECON 1012 — Introduction to Microeconomics  
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## Chapter 20 — Measuring GDP

- 1) Gross domestic product is
- A) the market value of all the intermediate goods and services produced in a country during a given time period.
  - B) the final value of all goods produced in a country in a given time period.
  - C) the market value of all goods and services produced in a country during a given time period.
  - D) the average value of output produced in a country in a given time period.
  - E) the market value of all the final goods and services produced in a country during a given time period.

Topic: Gross Domestic Product

- 2) In calculating GDP, economists use the value of final goods and services because
- A) final goods can be exported to other countries.
  - B) by using final goods and services, they avoid double counting.
  - C) intermediate goods are imported from other countries.
  - D) GDP is underestimated if intermediate goods are used instead.
  - E) none of the above.

Topic: Gross Domestic Product

- 3) Which of the following statements is true?
- A) Final goods and services produced in Canada by foreigners are part of the foreign country's GDP.
  - B) Final goods and services produced in Canada by foreigners are part of Canada's GDP.
  - C) Final goods and services produced in Canada by foreigners are exports.
  - D) Final goods and services produced in Canada by foreigners are imports.
  - E) Final goods and services produced abroad by Canadians are part of Canadian GDP.

Topic: Gross Domestic Product

- 4) The circular flow diagram illustrates the expenditures made by
- A) households and investors only.
  - B) households, firms, governments, and the rest of the world.
  - C) households and firms only.
  - D) firms, households, and governments only.
  - E) households only.

Topic: Gross Domestic Product

- 5) In the circular flow model,
- A) firms are sellers of goods and services in goods markets.
  - B) households are sellers of factor services in goods markets.
  - C) firms are sellers of the factors in factor markets.
  - D) households are buyers of goods and services in the factor markets.
  - E) firms are buyers of goods and services in final markets.

Topic: Gross Domestic Product

- 6) The circular flow model is used to
- A) show the real flows and money flows between different sectors of the economy.
  - B) explain how the prices of factors are determined.
  - C) show how nominal GDP is distinct from real GDP.
  - D) show the effects of inflation in a simple economy.
  - E) show the stocks of various sectors of the economy.

Topic: Gross Domestic Product

- 7) The purchasers in the goods and services market are
- A) households and firms only.
  - B) households and government only.
  - C) households, firms, government, and those who import our goods.
  - D) households and net exporters only.
  - E) households, firms, and government only.

Topic: Gross Domestic Product

- 8) Of the following items, which one would be considered as investment in the *National Income and Expenditure Accounts*?
- A) The purchase of a Canadian government bond.
  - B) The purchase of 100 shares of Bell Canada stock on the Toronto Stock Exchange.
  - C) The purchase of a new van by a potter who packs it with his wares and travels to art shows on weekends.
  - D) The purchase of a 100-year-old house that was put on the protected historic sites list.
  - E) All of the above.

Topic: Gross Domestic Product

- 9) Complete the following sentence. Net exports equals
- A) exports plus imports.
  - B) exports minus imports.
  - C) imports minus exports.
  - D) exports divided by imports.
  - E) foreign borrowing by residents of Canada minus domestic borrowing by nonresidents of Canada.

Topic: Gross Domestic Product

- 10) In the *National Income and Expenditure Accounts*, government expenditure refers to spending on goods and services by
- A) federal and provincial governments only.
  - B) federal, provincial, and local governments.
  - C) the federal government and local governments only. Provincial government expenditures are included in provincial GDP calculations.
  - D) the federal government only. Provincial and local government expenditures are included in provincial GDP calculations.
  - E) provincial and local governments only.

Topic: Gross Domestic Product

11) Which one of the following is an expenditure flow from households to firms?

- A) Goods and services.
- B) Loans.
- C) Payments for goods and services.
- D) Payments for factor services.
- E) Factor services.

Topic: Gross Domestic Product

12) Which one of the following is an income flow from firms to households?

- A) Payments for factor services.
- B) Goods and services.
- C) Loans.
- D) Factor services.
- E) Payments for goods and services.

Topic: Gross Domestic Product

13) Which one of the following flows from firms to households?

- A) Factor services.
- B) Loans.
- C) Payments for goods and services.
- D) Payments for loans.
- E) Goods and services.

Topic: Gross Domestic Product

14) For the aggregate economy, income equals

- A) expenditure, but these are not generally equal to GDP.
- B) expenditure equals GDP only if there is no government or foreign sectors.
- C) GDP, but expenditure is generally less than these.
- D) expenditure equals GDP only if there is no depreciation.
- E) expenditure equals GDP.

Topic: Gross Domestic Product

15) Which one of the following is *false*?

- A)  $X - M = Y - C - I - G$
- B)  $Y - C - I - G - X + M = 0$
- C)  $Y = C + I + G + X - M$
- D)  $Y + M = C + I + G + X$
- E)  $Y = C + I + G + M - X$

Topic: Gross Domestic Product

16) Which one of the following is *true*?

- A)  $Y = C + S + I$
- B)  $Y = C + I + G + X - M$
- C)  $I + G + X = Y + I + M$
- D)  $Y = C + I + G + M - X$
- E)  $Y + M = C + I + G$

Topic: Gross Domestic Product

17) Which of the following is *not* correct?

- A) Net investment equals gross investment minus depreciation.
- B) Depreciation decreases the value of a firm's capital.
- C) Gross investment is the total amount spent buying new capital and replacing depreciated capital.
- D) Investment is the purchase of plant, equipment, and buildings and the additions to inventories.
- E) Gross investment is the amount by which the value of capital increases.

Topic: Gross Domestic Product

18) Suppose the economy's capital increases over the year. It must be true that

- A) depreciation is less than zero.
- B) net investment was greater than gross investment.
- C) net investment was positive.
- D) depreciation was greater than gross investment.
- E) depreciation was greater than net investment.

Topic: Gross Domestic Product

19) SaskWidget produces plastic parts. At the beginning of the year, they held \$24 million worth of capital. At the end of the year, they held \$20 million worth of capital. One can conclude that

- A) net investment increased by \$4 million.
- B) gross investment decreased by \$4 million.
- C) gross investment increased by \$4 million.
- D) depreciation equals \$4 million.
- E) depreciation exceeded gross investment by \$4 million.

Topic: Gross Domestic Product

20) One of the reasons why real GDP grows is that

- A) prices increase.
- B) governments collect more taxes.
- C) imports increase.
- D) people have more income.
- E) capital grows as a result of investment.

Topic: Gross Domestic Product

21) Which of the following would be an example of a consumption expenditure?

- A) An increase in welfare payments to single mothers.
- B) The purchase of a new car by the Singh household.
- C) More spending by the government on children's programs.
- D) The purchase of a new car by the IPSCO steel company.
- E) All of the above.

Topic: Gross Domestic Product

22) The change in capital from year to year is equal to

- A) net investment minus depreciation
- B) savings.
- C) gross investment.
- D) gross investment minus net investment.
- E) gross investment minus depreciation.

Topic: Gross Domestic Product

- 23) Capital in year 2010 equals capital in year 2009
- A) plus net investment.
  - B) plus net investment plus depreciation.
  - C) minus depreciation.
  - D) plus gross investment.
  - E) plus net investment minus depreciation.

Topic: Gross Domestic Product

Use the figure below to answer the following questions.

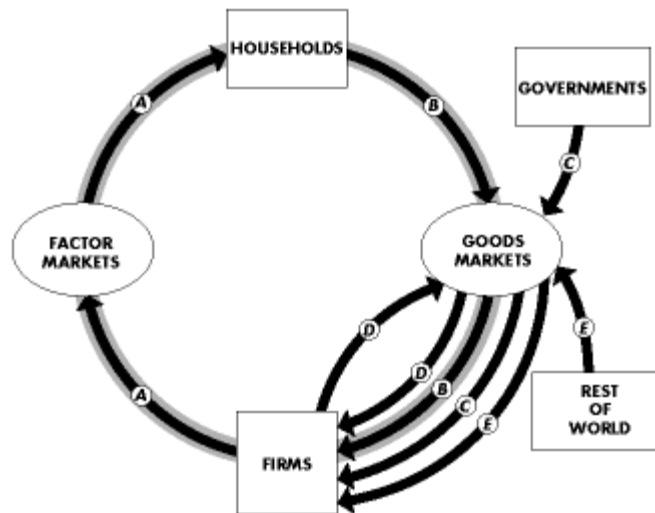


Figure 20.1.1

- 24) Refer to Figure 20.1.1, which shows the circular flow of expenditure and income for Venus. During 2008, *A* was \$100, *B* was \$50, *C* was \$30 and *D* was \$10. How much is GDP?
- A) \$50.
  - B) \$75.
  - C) \$90.
  - D) \$100.
  - E) None of the above.

Topic: Gross Domestic Product

- 25) Refer to Figure 20.1.1, which shows the circular flow of expenditure and income for Venus. During 2008, *A* was \$100, *B* was \$50, *C* was \$30 and *D* was \$10. How much is net exports?
- A) \$30.
  - B) \$50.
  - C) \$25.
  - D) \$10.
  - E) None of the above.

Topic: Gross Domestic Product

- 26) Refer to Figure 20.1.1, which shows the circular flow of expenditure and income for Venus. During 2008, *A* was \$100, *B* was \$50, *C* was \$30 and *D* was \$10. How much is aggregate expenditure?
- A) \$50.
  - B) \$90.
  - C) \$100.
  - D) \$75.
  - E) None of the above.

Topic: Gross Domestic Product

- 27) Refer to Figure 20.1.1, which shows the circular flow of expenditure and income for Venus. During 2008, *A* was \$100, *B* was \$50, *C* was \$30 and *D* was \$10. What is aggregate income?
- A) \$90.
  - B) \$100.
  - C) \$50.
  - D) \$25.
  - E) \$75.

Topic: Gross Domestic Product

*Use the information below to answer the following questions.*

**Fact 20.1.1**

At the beginning of 2008, Peter's Perfectly Prickly Piercing Parlour had \$5,000 worth of bellybutton and eyebrow rings on hand, 2 computers (each worth \$1,000), 1 cash register worth \$100, paper supplies worth \$500, and one piercing needle worth \$500. At the end of 2008, they had \$5,000 worth of bellybutton and eyebrow rings, a new high speed computer worth \$3,000 (they had to throw out the old ones), the same cash register, which was now worthless, paper supplies worth \$600, and they had upgraded the needle at a cost of \$700 which was valued at \$1,000.

- 28) Refer to Fact 20.1.1. Peter's capital at the beginning of 2008 is
- A) \$7,000.
  - B) \$7,600.
  - C) \$5,000.
  - D) \$8,100.
  - E) \$3,100.

Topic: Gross Domestic Product

- 29) Refer to Fact 20.1.1. Peter's capital at the end of 2008 is
- A) \$7,600.
  - B) \$9,600.
  - C) \$4,000.
  - D) \$7,000.
  - E) \$4,400.

Topic: Gross Domestic Product

- 30) Refer to Fact 20.1.1. Peter's gross investment in 2008 is
- A) \$2,800.
  - B) \$3,800.
  - C) \$7,800.
  - D) \$5,800.
  - E) \$1,800.

Topic: Gross Domestic Product

31) Refer to Fact 20.1.1. Peter's depreciation in 2008 is

- A) \$1,000.
- B) \$3,000.
- C) \$800.
- D) zero.
- E) \$2,300.

Topic: Gross Domestic Product

32) Refer to Fact 20.1.1. Peter's net investment in 2008 is

- A) \$1,800.
- B) \$7,800.
- C) \$1,500.
- D) \$3,800.
- E) \$2,000.

Topic: Gross Domestic Product

33) The value of intermediate goods is not counted in GDP

- A) because they are only sold in factor markets.
- B) to avoid counting their value twice and overstating the value of GDP.
- C) because of the tremendous difficulty in keeping track of all the intermediate goods produced in an economy as large as that of Canada.
- D) because they are not consumed in the current year.
- E) to keep from including goods that reduce society's welfare.

Topic: Gross Domestic Product

34) Intermediate goods are

- A) included directly in the measure of GDP.
- B) sold to their ultimate user.
- C) capital.
- D) produced by one firm, bought by another firm, and used as a component of a final good or service.
- E) purchased this year but consumed in future years.

Topic: Gross Domestic Product

35) An art collector recently sold a piece of pottery for \$300. He had purchased it for \$200 two years earlier. How will the most recent sale affect GDP?

- A) GDP will increase by \$200.
- B) GDP will not change.
- C) GDP will increase by \$100.
- D) GDP 2 years ago must be adjusted downwards by \$200, and current GDP will rise by \$300.
- E) GDP will increase by \$300.

Topic: Gross Domestic Product

36) Which of the following would *not* be included in GDP for 2009?

- A) The value of all cars produced in 2009.
- B) A car produced in January of 2009 and sold in November of 2009.
- C) A car produced in 2008 and sold in 2009.
- D) A car produced in 2009 and sold in 2010.
- E) A car produced in 2009 and held in inventory until 2010.

Topic: Gross Domestic Product

- 37) Stock and bond sales are not included in GDP because they
- A) do not occur in the year in which the production represented by them takes place.
  - B) represent indebtedness.
  - C) are not sold in the country in which they are produced.
  - D) are not goods and services.
  - E) represent corporate production.

Topic: Gross Domestic Product

- 38) In calculating GDP, all of the following are excluded *except*
- A) the value of used goods.
  - B) the value of intermediate goods.
  - C) purchases of stocks and bonds.
  - D) subsidies from the government.
  - E) the value of all homes built in the year in question.

Topic: Gross Domestic Product

- 39) From the following list, choose the item that would be included in a current measure of GDP.
- A) a social security cheque for \$500
  - B) income from the sale of your Canadian Snowfun stocks
  - C) the purchase of 10 litres of gasoline for your car
  - D) the purchase of a previously owned house that was built last year
  - E) a \$2,000 cheque from your aunt Grace

Topic: Gross Domestic Product

- 40) Which one of the following would *not* be counted as part of this year's GDP?
- A) The purchase of wheat that was produced in the current year by a Saskatchewan farmer.
  - B) The lumber you purchase when building bookshelves for your room.
  - C) The purchase of a house that was produced in the current year.
  - D) The government bond you buy for your newborn niece.
  - E) The purchase of a new personal computer that was produced in the current year.

Topic: Gross Domestic Product

- 41) How much would the production of a kayak add to GDP if the shell costs \$250, the paint costs \$20, the finisher costs \$35, the manufacturer sold it to the dealer for \$500, and the dealer sold it to his customer for \$800?
- A) \$1,300.
  - B) \$305.
  - C) \$800.
  - D) \$1,605.
  - E) \$500.

Topic: Gross Domestic Product

- 42) Which of the following adds to Canadian GDP?
- A) I sell my used Honda.
  - B) The purchase of a CD made in China.
  - C) The production and sale of flour to a bakery.
  - D) I shovel my own driveway.
  - E) The ice cream I buy from my grocery store.

Topic: Gross Domestic Product



43) A bakery uses flour to produce bread.

When calculating GDP, we include \_\_\_\_\_, because when we add the value of the flour to the value of the loaf of bread to calculate GDP, the result is \_\_\_\_\_.

- A) only the value of the flour used to produce the bread; double counting
- B) both the value of the bread sold in a store and the value of the flour used to produce the bread; double counting
- C) both the value of the bread sold in a store and the value of the flour used to produce the bread; the true value of the economy's output
- D) only the value of the bread sold in a store; double counting
- E) none of the above

Topic: Gross Domestic Product

44) The firm that printed your textbook bought the paper from XYZ Paper Mills.

This purchase of paper \_\_\_\_\_ part of GDP because the paper is \_\_\_\_\_ good.

- A) is not; an intermediate
- B) is not; a final
- C) is; an intermediate
- D) is; a nonrenewable
- E) is; a final

Topic: Gross Domestic Product

45) To measure GDP, Statistics Canada uses

- A) the expenditure approach.
- B) the value-added approach.
- C) the income approach.
- D) only A and B.
- E) A, B and C.

Topic: Measuring Canada's GDP

46) A hypothetical economy produced four final goods during the year: plates, TVs, bicycles, and computers. Forty plates were produced and sold for \$10 each. Five TVs were produced and sold for \$300 each. Fifty bicycles were produced and sold for \$100 each. Three computers were produced and sold for \$750 each. With this information, one could determine

- A) net investment for this economy.
- B) indirect taxes less subsidies for this economy.
- C) gross investment for this economy.
- D) total income for this economy.
- E) whether factors had been fully employed in this economy.

Topic: Measuring Canada's GDP

47) Suppose the economy of Econoworld produces only two goods, kayaks and birdseed. In one year 20 kayaks are produced and sold for \$1,000 each and 10 bags of birdseed are produced and sold for \$30 each. The value of nominal GDP for this year is

- A) \$20,000.
- B) \$20,300.
- C) \$300.
- D) \$23,000.
- E) 20 kayaks plus 10 bags of birdseed.

Topic: Measuring Canada's GDP

- 48) The expenditure approach measures GDP by adding together
- A) the total expenditures of consumers, firms, net exporters, and by governments at all levels.
  - B) wages, salaries and supplementary labour income, corporate profits, interest and miscellaneous investment income, farmers' income, and income of nonfarm unincorporated businesses.
  - C) wages, salaries and supplementary labour income, corporate profits, interest and miscellaneous investment income, farmers' income, subsidies paid by the government, indirect taxes paid, and income of nonfarm unincorporated businesses.
  - D) compensation of employees, rental income, corporate profits, net interest, proprietors' income, indirect taxes paid, and capital consumption expenditures, and by subtracting subsidies paid by the government.
  - E) the total expenditures of consumers and firms.

Topic: Measuring Canada's GDP

Use the table below to answer the following questions.

**Table 20.2.1**  
Data From Eastland

Wages, salaries, and supplementary labour income	800
Farmers' income	80
Government expenditures on goods and services	240
Depreciation	240
Business investment	400
Personal income taxes net of transfer payments	140
Corporate profits	80
Indirect taxes	120
Net exports	80
Consumption expenditure	640
Interest and miscellaneous investment income	100

- 49) Refer to Table 20.2.1. From the information given in the table, the value of gross domestic product is
- A) \$1,120.
  - B) \$1,280.
  - C) \$1,100.
  - D) \$1,290.
  - E) \$1,360.

Topic: Measuring Canada's GDP

- 50) Refer to Table 20.2.1. From the information given in the table, the value of net domestic income at factor prices is
- A) \$1,360.
  - B) \$1,100.
  - C) \$1,290.
  - D) \$1,280.
  - E) \$1,120.

Topic: Measuring Canada's GDP

51) Refer to Table 20.2.1. From the data in the table, what is the net investment in Eastland?

- A) -\$160.
- B) \$400.
- C) \$160.
- D) \$500.
- E) \$240.

Topic: Measuring Canada's GDP

52) Refer to Table 20.2.1. From the data in the table, what additional data are needed to compute net domestic income at factor cost?

- A) Transfer payments.
- B) Net taxes.
- C) Income of non-farm unincorporated businesses.
- D) Depreciation.
- E) Subsidies.

Topic: Measuring Canada's GDP

53) Refer to Table 20.2.1. From the data in the table, what is total income in Eastland?

- A) \$1,120.
- B) \$1,180.
- C) \$1,420.
- D) \$1,280.
- E) \$1,360.

Topic: Measuring Canada's GDP

54) The largest component of GDP using the expenditure approach is

- A) exports.
- B) investment.
- C) imports.
- D) consumption expenditure.
- E) government expenditure.

Topic: Measuring Canada's GDP

55) Which one of the following would be included in the calculation of GDP by the expenditure approach?

- A) the income you pay to your gardener
- B) the purchase of 20 shares of a new issue of IBM stock
- C) the value of your brother's services when he mows the lawn for the family
- D) the purchase of an original eighteenth century work of art
- E) the cost of adding a new kitchen to your house

Topic: Measuring Canada's GDP

Use the table below to answer the following questions.

**Table 20.2.2**

Government expenditures on goods and services	\$ 500
Wages, salaries, and supplementary labour income	2,000
Depreciation	400
Investment	400
Consumption expenditure	2,200
Net exports	-50
Indirect taxes	150
Statistical discrepancy	0

56) Refer to Table 20.2.2. Gross domestic product equals

- A) \$5,600.
- B) \$5,050.
- C) \$3,150.
- D) \$3,050.
- E) \$3,400.

Topic: Measuring Canada's GDP

57) Refer to Table 20.2.2. Net domestic income at market prices equals

- A) \$3,150.
- B) \$4,650.
- C) \$2,650.
- D) \$3,400.
- E) \$3,050.

Topic: Measuring Canada's GDP

58) Which one of the following is *not* an example of investment in the expenditure approach to measuring GDP?

General Motors

- A) buys a new auto stamping machine.
- B) replaces some worn-out stamping machines.
- C) buys shares in another company.
- D) builds another assembly plant.
- E) adds 500 new cars to inventories.

Topic: Measuring Canada's GDP

Use the table below to answer the following questions.

**Table 20.2.3**

Item	Millions of dollars
Wages paid to labour	800,000
Consumption expenditure	650,000
Taxes paid on wages	200,000
Government payments to support unemployed, sick, & aged	50,000
Firms' profits	200,000
Investment	250,000
Taxes paid on profits	50,000
Government expenditure on goods and service	200,000
Exports	250,000
Saving	200,000
Imports	300,000

59) Refer to Table 20.2.3. Consider the economy represented in the table. GDP in this economy, in millions of dollars, is

- A) \$850,000.
- B) \$1,150,000
- C) \$1,350,000.
- D) \$1,050,000.
- E) none of the above.

Topic: Measuring Canada's GDP

60) Refer to Table 20.2.3. Consider the economy represented in the table. Total income, in millions of dollars, is

- A) \$1,050,000.
- B) \$850,000.
- C) \$1,350,000.
- D) \$800,000.
- E) none of the above.

Topic: Measuring Canada's GDP

61) The income approach to measuring GDP is derived by adding together

- A) the total expenditures of consumers, investors, net exporters, and purchases of all levels of government.
- B) the value added of each firm in the economy.
- C) wages, salaries and supplementary labour income, corporate profits, interest and miscellaneous investment income, farmers' income, and income of non-farm unincorporated businesses, plus indirect taxes less subsidies, plus depreciation.
- D) the value added of each firm in the economy, indirect business taxes, depreciation, and by subtracting subsidies paid by the government.
- E) wages, salaries and supplementary labour income, corporate profits, interest and miscellaneous investment income, farmers' income, subsidies paid by the government, indirect taxes paid, and income of non-farm unincorporated businesses.

Topic: Measuring Canada's GDP

- 62) Net domestic income at market prices can be derived by which one of the following? GDP (income approach) minus
- A) taxes.
  - B) corporate profits.
  - C) depreciation.
  - D) consumption expenditure.
  - E) subsidies.

Topic: Measuring Canada's GDP

- 63) The largest component of GDP from the income approach is
- A) farmers' income.
  - B) interest and miscellaneous investment income.
  - C) wages, salaries, and supplementary labour income.
  - D) income of non-farm unincorporated businesses.
  - E) corporate profits.

Topic: Measuring Canada's GDP

- 64) The sum of wages, salaries and supplementary labour income, corporate profits, interest and miscellaneous investment income, farmers' income, and income of non-farm unincorporated businesses, is
- A) total output of the economy.
  - B) gross domestic income.
  - C) gross domestic product.
  - D) net domestic product.
  - E) net domestic income at factor cost.

Topic: Measuring Canada's GDP

- 65) In the Canadian economy, market prices and factor costs would be the same except for
- A) depreciation.
  - B) exports.
  - C) personal taxes.
  - D) capital consumption.
  - E) indirect taxes and subsidies.

Topic: Measuring Canada's GDP

- 66) Net domestic income at market prices equals
- A) consumption expenditure plus government expenditure plus exports plus personal taxes.
  - B) indirect business taxes plus personal income plus net exports.
  - C) all incomes plus indirect taxes minus subsidies.
  - D) all incomes minus depreciation.
  - E) consumption expenditure plus government expenditure plus net exports plus investment.

Topic: Measuring Canada's GDP

- 67) Suppose there is a 10 percent sales tax on consumption goods and you buy a new bicycle with a \$200 price tag. By using the income approach to measuring GDP, how much does this sale add to GDP?
- A) \$20
  - B) \$210
  - C) \$180
  - D) \$200
  - E) \$220

Topic: Measuring Canada's GDP

Use the table below to answer the following questions.

**Table 20.2.4**

Corporate profits	\$200
Interest and miscellaneous investment income	150
Indirect taxes	230
Depreciation	250
Wages, salaries and supplementary labour income	1,350
Farmers' income	150
Income of non-farm unincorporated businesses	70
Consumption expenditure	1,400
Government expenditure on goods and services	500
Government transfer payments	50
Net exports	40
Subsidies	0

68) Refer to Table 20.2.4. Gross domestic product is equal to

- A) \$2,350.
- B) \$1,920.
- C) \$2,400.
- D) \$2,150.
- E) \$1,940.

Topic: Measuring Canada's GDP

69) Refer to Table 20.2.4. Net domestic income at market prices is equal to

- A) \$1,920.
- B) \$2,350.
- C) \$1,940.
- D) \$2,150.
- E) \$2,400.

Topic: Measuring Canada's GDP

70) Refer to Table 20.2.4. Gross investment is equal to

- A) \$400.
- B) \$250.
- C) \$260.
- D) \$460.
- E) \$560.

Topic: Measuring Canada's GDP

71) Refer to Table 20.2.4. Net investment is equal to

- A) \$210.
- B) \$560.
- C) \$510.
- D) \$150.
- E) \$250.

Topic: Measuring Canada's GDP

- 72) Which approach to measuring GDP is being used when Statistics Canada sums wages, salaries and supplementary labour income, corporate profits, interest and miscellaneous investment income, farmers' income, and income of non-farm unincorporated businesses?
- A) Value-added approach.
  - B) Expenditure approach.
  - C) Income approach.
  - D) Opportunity cost approach.
  - E) Factor cost approach.

Topic: Measuring Canada's GDP

- 73) Which approach to measuring GDP is being used when Statistics Canada sums spending on goods and services for consumer goods, government, business investments and exports, net of imports?
- A) Expenditure.
  - B) Value added.
  - C) Income.
  - D) Factor cost.
  - E) Opportunity cost.

Topic: Measuring Canada's GDP

- 74) To derive net domestic income at market prices from gross domestic product, we
- A) subtract depreciation from GDP.
  - B) add the statistical discrepancy to GDP.
  - C) add depreciation to GDP.
  - D) subtract the statistical discrepancy from GDP.
  - E) subtract gross investment from GDP.

Topic: Measuring Canada's GDP

- 75) Interest plus miscellaneous investment income is a component of which approach to measuring GDP?
- A) Injections approach.
  - B) Income approach.
  - C) Opportunity cost approach.
  - D) Output approach.
  - E) Expenditure approach.

Topic: Measuring Canada's GDP

- 76) Which one of the following is *not* a component of the income approach to GDP?
- A) Income of non-farm unincorporated businesses.
  - B) Corporate profits.
  - C) Farmers' income.
  - D) Wages, salaries, and supplementary labour income.
  - E) Net exports.

Topic: Measuring Canada's GDP

- 77) To obtain the factor cost of a good from its market price
- A) subtract indirect taxes and add subsidies.
  - B) subtract both indirect taxes and subsidies.
  - C) add indirect taxes and subtract subsidies.
  - D) add both indirect taxes and subsidies.
  - E) subtract depreciation.

Topic: Measuring Canada's GDP



- 78) Wages, salaries, and supplementary labour income are components of which approach to measuring GDP?
- A) Value-added approach.
  - B) Income approach.
  - C) Output approach.
  - D) Expenditure approach.
  - E) Injections approach.

Topic: Measuring Canada's GDP

- 79) Real GDP equals
- A) nominal GDP minus the rate of inflation.
  - B) nominal GDP adjusted for the depreciation of capital.
  - C) nominal GDP minus the value of intermediate goods.
  - D) nominal GDP minus the value of goods exported to foreign countries.
  - E) the value of final goods and services produced in a given year when valued at the prices of a reference base year.

Topic: Measuring Canada's GDP

- 80) Suppose in current dollar terms, GDP increased by approximately 7 percent between one period and the next, but real GDP fell by 2 percent. Which one of the following explanations is most likely?
- A) Prices fell by 2 percent.
  - B) Output rose by 2 percent.
  - C) Prices increased by 7 percent.
  - D) Prices increased by 9 percent.
  - E) Prices fell by 9 percent.

Topic: Measuring Canada's GDP

- 81) Real GDP will increase only if the
- A) employment rate rises.
  - B) employment rate falls.
  - C) quantity of goods and services produced increases.
  - D) unemployment rate rises.
  - E) average level of prices rises.

Topic: Measuring Canada's GDP

- 82) In recent history, real GDP has risen less rapidly than nominal GDP. This is because
- A) the general price level fell.
  - B) capital increased.
  - C) the general price level rose.
  - D) the level of population rose.
  - E) the goal of zero population growth has been reached.

Topic: Measuring Canada's GDP

- 83) If nominal GDP increased by 11 percent during a year while real GDP increased by only 5 percent, then the
- A) price level increased by 6 percent.
  - B) price level increased by 16 percent.
  - C) unemployment rate fell during the year.
  - D) price level remained steady but real output fell by 6 percent.
  - E) price level decreased by 6 percent.

Topic: Measuring Canada's GDP

- 84) If you want to investigate the claim that more goods and services were produced in the economy during 2008 than 2009, what should you look at?
- A) GDP calculated using the expenditure approach.
  - B) Real GDP.
  - C) Intermediate GDP.
  - D) Nominal GDP.
  - E) Either B or D.

Topic: Measuring Canada's GDP

- 85) Nominal GDP will increase
- A) only if the unemployment rate rises.
  - B) only if both the average level of prices rises and the quantity of goods and services produced increases.
  - C) only if the average level of prices rises.
  - D) only if the quantity of goods and services produced increases.
  - E) if either the average level of prices rises or the quantity of goods and services produced increases.

Topic: Measuring Canada's GDP

Use the table below to answer the following questions.

**Table 20.2.5**  
Data From Southton

Item	Price (dollars)		Quantity (number of items)	
	Base Year	Current Year	Base Year	Current Year
Rubber Ducks	1.00	1.25	100	100
Beach Towels	9.00	6.00	12	14

- 86) Refer to Table 20.2.5. From the data in the table, compute Southton's nominal GDP in the current year.
- A) \$208.
  - B) \$197.
  - C) \$209.
  - D) \$226.
  - E) It cannot be calculated given the data.

Topic: Measuring Canada's GDP

- 87) Refer to Table 20.2.5. From the data in the table, compute Southton's nominal GDP in the base year.
- A) \$226.
  - B) \$209.
  - C) \$197.
  - D) \$208.
  - E) It cannot be calculated given the data.

Topic: Measuring Canada's GDP

- 88) Refer to Table 20.2.5. From the data in the table, compute Southton's real GDP in the base year.
- A) \$226.
  - B) \$208.
  - C) \$197.
  - D) \$209.
  - E) It cannot be calculated given the data.

Topic: Measuring Canada's GDP

- 89) Suppose, between year 1 and year 2, the nominal GDP of an economy increased from \$1 billion to \$3 billion and that the appropriate index of prices increased from 100 in year 1 to 200 in year 2. GDP for year 2 in terms of year 1 prices would be
- A) \$4 billion.
  - B) \$3 billion.
  - C) \$2 billion.
  - D) \$6 billion.
  - E) \$1.5 billion.

Topic: Measuring Canada's GDP

Use the table below to answer the following questions.

**Table 20.2.6**  
There are only two goods in this economy.

	Price		Quantity	
	Base Year (dollars)	Current Year (dollars)	Base Year	Current Year
Bread	1.00	2.10	70,000	75,000
Computer Disks	1.00	1.80	25,000	18,000

- 90) Refer to Table 20.2.6. Consider the data in this table. What is current nominal GDP?
- A) \$95,000.
  - B) \$93,000.
  - C) \$192,000.
  - D) \$189,900.
  - E) None of the above.

Topic: Measuring Canada's GDP

- 91) Refer to Table 20.2.6. Consider the data in this table. What is current real GDP in terms of base -year prices?
- A) \$93,000.
  - B) \$192,000.
  - C) \$189,900.
  - D) \$95,000.
  - E) None of the above.

Topic: Measuring Canada's GDP

- 92) Choose the correct statement.
- A) Nominal GDP is just a more precise name for GDP.
  - B) We measure the change in production by comparing nominal GDP in one year with real GDP in the previous year.
  - C) Nominal GDP is just a more precise name for real GDP.
  - D) When nominal GDP increases, real GDP decreases.
  - E) Nominal GDP and real GDP both increase when the average level of prices increase.

Topic: Measuring Canada's GDP

- 93) A south sea island produces only coconuts.  
In 2005, the price of a coconut is \$2.00 and the quantity produced is 400.  
In 2008, the price of a coconut is \$1.50 and the quantity produced is 350.  
2005 is the reference base year.  
Real GDP in 2008 in terms of base-year prices is
- A) \$750.
  - B) \$600.
  - C) \$525.
  - D) \$800.
  - E) \$700.

Topic: Measuring Canada's GDP

- 94) Which of the following items would be included in a current measure of GDP?
- A) The value of safety on the streets of your community.
  - B) Your labour in fixing a leaky pipe under your sink.
  - C) The illegal sale of a bag of marijuana.
  - D) A professional gardener who regularly cuts your lawn.
  - E) All of the above.

Topic: The Uses and Limitations of Real GDP

- 95) Suppose Angela falls in love with and subsequently marries her regularly employed housekeeper, Tony. What effect would this action have on GDP?
- A) It depends on whether he starts to work in the house free of charge or whether she still pays him.
  - B) It would stay the same.
  - C) It would rise.
  - D) It would fall but then increase after the honeymoon was over.
  - E) It would fall.

Topic: The Uses and Limitations of Real GDP

- 96) Since non-market exchanges are excluded from measures of GDP, the GDP measure tends to
- A) place too much value on market transactions.
  - B) be of little use to anyone but market economists.
  - C) overestimate the total production of an economy.
  - D) be of little significance in determining the total production of an economy.
  - E) underestimate the total production of an economy.

Topic: The Uses and Limitations of Real GDP

- 97) Which of the following is *not* a reason for GDP incorrectly measuring the value of total output?
- A) Household production.
  - B) Underground economic activity.
  - C) Depreciation.
  - D) Environmental quality.
  - E) Leisure time.

Topic: The Uses and Limitations of Real GDP

- 98) The existence of which one of the following is *not* a reason for the fact that GDP gives an incorrect estimate of the value of total output in the economy?
- A) Health and life expectancy.
  - B) Leisure time.
  - C) Social justice.
  - D) Political freedom.
  - E) Taxes.

Topic: The Uses and Limitations of Real GDP

- 99) The existence of which one of the following is a reason for the fact that GDP gives an underestimated value of total output in the economy?
- A) Environmental problems.
  - B) Market activities.
  - C) Pollution.
  - D) Underground economy.
  - E) Depreciation.

Topic: The Uses and Limitations of Real GDP

- 100) When all of the economy's labour, land, capital and entrepreneurial ability are fully employed, the value of production is called
- A) real GDP.
  - B) potential GDP.
  - C) productive GDP.
  - D) actual GDP.
  - E) nominal GDP.

Topic: The Uses and Limitations of Real GDP

- 101) In any year, real GDP
- A) must always be less than potential GDP.
  - B) increases if potential GDP increases, and decreases if potential GDP decreases.
  - C) always equals potential GDP.
  - D) might be greater or less than potential GDP.
  - E) will always be greater than potential GDP because of the tendency of nations to incur inflation.

Topic: The Uses and Limitations of Real GDP

- 102) The business cycle is defined as the
- A) periodic and regular up-and-down movement of total production.
  - B) regular growth rate of the real GDP.
  - C) regular fluctuations of real GDP below potential GDP.
  - D) irregular fluctuations of prices around real GDP.
  - E) irregular fluctuations of real GDP around potential GDP.

Topic: The Uses and Limitations of Real GDP

- 103) Business cycles are
- A) irregular, with some having two recessions and no expansion.
  - B) predictable, with a recession following a trough.
  - C) predictable with an expansion following a trough.
  - D) unpredictable, but always have two phases and two turning points.
  - E) unpredictable, and don't always have two phases and two turning points.

Topic: The Uses and Limitations of Real GDP

104) The four parts of the business cycle occur in the following order:

- A) recession, trough, expansion, peak.
- B) trough, peak, expansion, recession.
- C) recession, trough, peak, expansion.
- D) expansion, trough, peak, recession.
- E) expansion, trough, recession, peak.

Topic: The Uses and Limitations of Real GDP

105) A recession is a period with

- A) negative growth rate in real GDP that lasts at least one quarter.
- B) negative growth rate in real GDP that lasts at least two quarters.
- C) a slowdown in real GDP growth but not necessarily negative real GDP growth.
- D) positive growth rate in real GDP that lasts at least one quarter.
- E) positive growth rate in real GDP that lasts at least two quarters.

Topic: The Uses and Limitations of Real GDP

Use the figure below to answer the following questions.

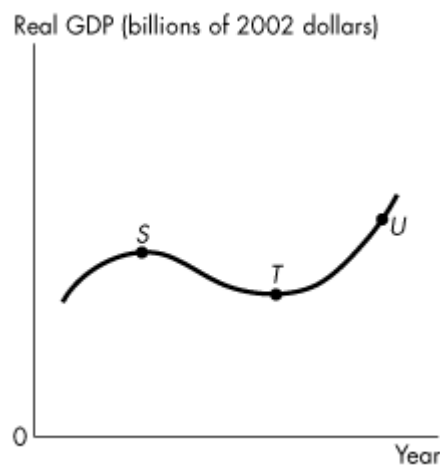


Figure 20.3.1

106) Refer to Figure 20.3.1. In the figure, the distance between points *S* and *T* represents

- A) an expansion.
- B) a trough.
- C) a peak.
- D) a business cycle.
- E) a recession.

Topic: The Uses and Limitations of Real GDP

107) Refer to Figure 20.3.1. In the figure, the distance between points *T* and *U* represents

- A) a trough.
- B) a recession.
- C) a business cycle.
- D) a peak.
- E) an expansion.

Topic: The Uses and Limitations of Real GDP

Use the figure below to answer the following questions.

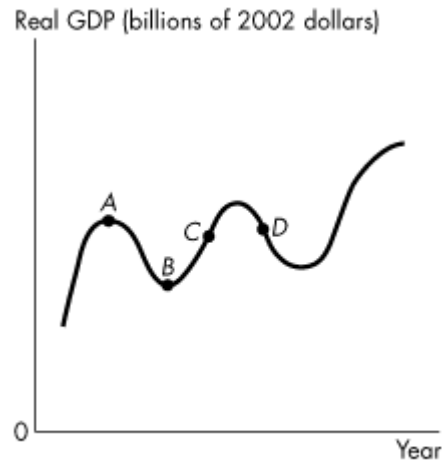


Figure 20.3.2

108) Refer to Figure 20.3.2. In the figure, a recession begins at point \_\_\_\_\_ and an expansion begins at point \_\_\_\_\_.

- A) A; B
- B) C; D
- C) D; C
- D) B; A
- E) B; C

Topic: The Uses and Limitations of Real GDP

109) Refer to Figure 20.3.2. In the figure, a trough is at point \_\_\_\_\_ and a peak is at point \_\_\_\_\_.

- A) D; C
- B) A; B
- C) B; A
- D) C; D
- E) B; C

Topic: The Uses and Limitations of Real GDP

110) If we compare Canada's GDP and the Chinese GDP,

- A) Canada's real GDP per person is less than China's real GDP per person once we adjust for currency differences.
- B) China's real GDP per person is less than real GDP per person in Canada.
- C) real Canadian GDP per person is much larger than China's real GDP per person when purchasing power parity prices are used but is less than China's real GDP per person when exchange rate prices are used.
- D) real GDP per person is about the same in the two countries.
- E) none of the above.

Topic: The Uses and Limitations of Real GDP

- 111) The underground economy is any economic activity that
- A) is not taxed.
  - B) is unreported or illegal.
  - C) produces intermediate goods or services.
  - D) is conducted underground.
  - E) has negative social value.

Topic: The Uses and Limitations of Real GDP

- 112) Given that pollution is a by-product of some production processes,
- A) GDP accountants do not adjust GDP unless pollution is a serious problem.
  - B) GDP accountants adjust GDP downward.
  - C) GDP tends to understate economic well-being.
  - D) GDP accountants adjust GDP upward.
  - E) GDP tends to overstate economic well-being.

Topic: The Uses and Limitations of Real GDP

- 113) Which of the following statements by politicians is talking about the business cycle?
- A) "Canadian unemployment is falling due to the upturn in the economy."
  - B) "An average of 220,000 new jobs are created each year in Canada."
  - C) "Crime rates increase every spring as the school year ends."
  - D) "Business always rises just before Christmas."
  - E) "More capital investment will create more jobs."

Topic: The Uses and Limitations of Real GDP

- 114) Why is the Human Development Index thought to be a better measure of economic well-being than real GDP per person?
- A) It includes a measure of resource depletion.
  - B) It includes leisure time and household production.
  - C) It ignores health, which is hard to measure.
  - D) It includes only health and education measures, ignoring real GDP per person.
  - E) It includes health and education measures, as well as real GDP per person.

Topic: The Uses and Limitations of Real GDP

- 115) When we use PPP we can make valid international comparisons of real GDP because we
- A) use data provided by the IMF.
  - B) use the price data provided by the two countries but not the quantities.
  - C) calculate the value of goods and services produced in two countries using the same prices.
  - D) calculate the value of goods and services produced in two countries using the same quantities.
  - E) use official government data.

Topic: The Uses and Limitations of Real GDP

- 116) All of the following statements are true *except*
- A) the Lucas wedge is the dollar value of the accumulated gap between what real GDP per person would have been if the 1960s growth rate had persisted and what real GDP per person turned out to be.
  - B) the Lucas wedge equals real GDP minus potential GDP.
  - C) the Lucas wedge arises from the slowdown of productivity growth that began during the 1970s.
  - D) the Lucas wedge accumulated to \$316,000 per person by 2007.
  - E) real GDP per person was \$23,230 per year lower in 2008 than it would have been with no growth slowdown.

Topic: The Uses and Limitations of Real GDP



Use the table below to answer the following questions.

**Table 20.4.1**

Item	2008 Quantity	2008 Price	2009 Quantity	2009 Price
CD players	10	\$100	15	\$110
bananas	50 bunches	\$2	100 bunches	\$3

- 117) Refer to Table 20.4.1. In this table, at 2008 prices, the value of production from 2008 to 2009 has increased by
- A) 10.8 percent.
  - B) 77.3 percent.
  - C) 56 percent.
  - D) 91.7 percent.
  - E) 54.5 percent.

Topic: Mathematical Note: Chained-Dollar Real GDP

- 118) Refer to Table 20.4.1. In this table, at 2009 prices, the value of production from 2008 to 2009 has increased by
- A) 54.5 percent.
  - B) 91.7 percent.
  - C) 56 percent.
  - D) 10.8 percent.
  - E) 77.3 percent.

Topic: Mathematical Note: Chained-Dollar Real GDP

## Answer Key

Testname: 20 MEASURING GDP

- |       |        |        |
|-------|--------|--------|
| 1) E  | 51) C  | 101) D |
| 2) B  | 52) C  | 102) E |
| 3) B  | 53) E  | 103) D |
| 4) B  | 54) D  | 104) A |
| 5) A  | 55) E  | 105) B |
| 6) A  | 56) D  | 106) E |
| 7) C  | 57) C  | 107) E |
| 8) C  | 58) C  | 108) A |
| 9) B  | 59) D  | 109) C |
| 10) B | 60) A  | 110) B |
| 11) C | 61) C  | 111) B |
| 12) A | 62) C  | 112) E |
| 13) E | 63) C  | 113) A |
| 14) E | 64) E  | 114) E |
| 15) E | 65) E  | 115) C |
| 16) B | 66) C  | 116) B |
| 17) E | 67) E  | 117) E |
| 18) C | 68) C  | 118) C |
| 19) E | 69) D  |        |
| 20) E | 70) D  |        |
| 21) B | 71) A  |        |
| 22) E | 72) C  |        |
| 23) A | 73) A  |        |
| 24) D | 74) A  |        |
| 25) D | 75) B  |        |
| 26) C | 76) E  |        |
| 27) B | 77) A  |        |
| 28) D | 78) B  |        |
| 29) B | 79) E  |        |
| 30) B | 80) D  |        |
| 31) E | 81) C  |        |
| 32) C | 82) C  |        |
| 33) B | 83) A  |        |
| 34) D | 84) B  |        |
| 35) B | 85) E  |        |
| 36) C | 86) C  |        |
| 37) D | 87) D  |        |
| 38) E | 88) B  |        |
| 39) C | 89) E  |        |
| 40) D | 90) D  |        |
| 41) C | 91) A  |        |
| 42) E | 92) A  |        |
| 43) D | 93) E  |        |
| 44) A | 94) D  |        |
| 45) D | 95) A  |        |
| 46) D | 96) E  |        |
| 47) B | 97) C  |        |
| 48) A | 98) E  |        |
| 49) E | 99) D  |        |
| 50) E | 100) B |        |

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