

## EC1001 – Macroeconomics – Exercise I – Week 15

### Multiple Choice

*Identify the letter of choice that best complements the statement or answers the question.*

You are expected to have answered all questions ahead of the class. Your tutor will not mark your work, but will expect you to speak up and offer answers to the questions.

These multiple choice questions are of the type that you will see in the midsummer examination. There you will be expected to answer about the same number of questions in about 80 minutes.

1. For an economy as a whole,
  - a. wages must equal profit.
  - b. consumption must equal saving.
  - c. income must equal expenditure.
  - d. the number of buyers must equal the number of sellers.
  
2. Thomas owns two houses. He rents one house to the Johnson family for £10,000 per year. He lives in the other house. If he were to rent the house in which he lives, he could earn £12,000 per year in rent. How much do the housing services provided by the two houses contribute to GDP?
  - a. £0
  - b. £10,000
  - c. £12,000
  - d. £22,000
  
3. One bag of flour is sold for £1.00 to a bakery, which uses the flour to bake bread that is sold for £3.00 to consumers. A second bag of flour is sold for £1 to a grocery store who sells it to a consumer for £2.00. Taking these four transactions into account, what is the effect on GDP?
  - a. GDP increases by £3.00.
  - b. GDP increases by £5.00.
  - c. GDP increases by £6.00.
  - d. GDP increases by £7.00.

4. A newspaper article informs you that most businesses reduced production in the last quarter but also sold from their inventories during the last quarter. Based on this information GDP likely
  - a. increased.
  - b. decreased.
  - c. stayed the same.
  - d. may have increased, decreased, or stayed the same.

**Table 10-1**

The table below contains data for Bahkan for the year 2011.

GDP	£110
Income earned by citizens abroad	£5
Income foreigners earn here	£15
Losses from depreciation	£4
Indirect business taxes	£6
Statistical discrepancy	£0
Retained earnings	£5
Corporate income taxes	£6
Social insurance contributions	£10
Interest paid to households by government	£5
Transfer payments to households from government	£15
Personal taxes	£30
Nontax payments to government	£5

5. **Refer to Table 10-1.** The market value of all final goods and services produced within Bahkan in 2011 is
  - a. £95.
  - b. £100.
  - c. £110.
  - d. £120.
  
6. **Refer to Table 10-1.** Gross national product for Bahkan in 2010 is
  - a. £95.
  - b. £100.
  - c. £110.
  - d. £115.
  
7. In the economy of Ukzten in 2010, consumption was £3000, exports were £400, GDP was £5000, imports were £600, and investment was £1100. What were Ukzten's government purchases in 2010?
  - a. £300
  - b. £500
  - c. £700
  - d. £1100

**Table 10-3**

The table below reports nominal and real GDP for the U.S. from 1929 to 1932.

Year	Nominal GDP	Real GDP
1929	103.6	977
1930	91.2	892.8
1931	76.5	834.9
1932	58.7	725.8

8. **Refer to Table 10-3.** What is the GDP deflator and the inflation rate for 1931?
- 9.16, -11.5
  - 9.16, -10.3
  - 1091.37, 10.3
  - 1091.37, 11.5
9. Which of the following statements regarding GDP is correct?
- GDP includes factory production, but not any harm that may be inflicted on the environment.
  - GDP accounts for all activities taking place outside markets.
  - GDP provides detailed information about the distribution of income.
  - GDP is a good measure of economic well-being for all purposes.
10. In the calculation of the CPI, tea is given greater weight than beer if
- the price of tea is higher than the price of beer.
  - it costs more to produce tea than it costs to produce beer.
  - tea is more readily available than beer to the typical consumer.
  - consumers buy more tea than beer.

**Table 11-3**

The table below pertains to Studious, an economy in which the typical consumer's basket consists of 5 books and 10 calculators.

Year	Price of a Book	Price of a Calculator
2006	£24	£8
2007	£30	£12
2008	£32	£15

11. **Refer to Table 11-3.** The cost of the basket in 2006 was
- £32.
  - £200.
  - £280.
  - £480.

12. If the CPI was 90 in 1975 and is 225 today, then £100 today purchases the same amount of goods and services as
- £25.00 purchased in 1975.
  - £33.33 purchased in 1975.
  - £40.00 purchased in 1975.
  - £135.55 purchased in 1975.
13. The consumer price index was 200 in 2006 and 210 in 2007. The nominal interest rate during this period was 6.5 percent. What was the real interest rate during this period?
- 1.5 percent
  - 1.75 percent
  - 11.25 percent
  - 11.5 percent
14. The price of DVD players increases dramatically, causing a 1 percent increase in the CPI. The price increase will most likely cause the GDP deflator to increase by
- more than 1 percent.
  - less than 1 percent.
  - 1 percent.
  - None of the above is correct; this particular price increase will not affect the GDP deflator.
15. For the purpose of calculating the consumer price index, the basket of goods
- is kept the same from year to year so that the effects of price changes are isolated from the effect of any quantity changes that might be occurring at the same time.
  - is kept the same from year to year; otherwise, the value of the index would remain constant from year to year.
  - varies from year to year; otherwise, the value of the index would remain constant from year to year.
  - varies from year to year so that consumers' buying patterns are updated in a timely fashion.
16. Suppose the quality of beef changes over time, but the quality change goes unmeasured for the purpose of computing the consumer price index. In which of the following instances would the bias resulting from the unmeasured quality change be *least* severe?
- The quality of beef deteriorates and beef becomes more expensive relative to other goods.
  - The quality of beef deteriorates and beef becomes less expensive relative to other goods.
  - The quality of beef improves and beef becomes more expensive relative to other goods.
  - The quality of beef improves and the price of beef relative to other prices remains unchanged.

17. Which of the following can be measured by the level of real GDP per person?
- productivity and the standard of living
  - productivity but not the standard of living
  - the standard of living but not productivity
  - neither the standard of living nor productivity
18. The one variable that stands out as the most significant explanation of large variations in living standards around the world is
- productivity.
  - population.
  - preferences.
  - prices.
19. If your firm's production function has constant returns to scale, and if you double all your inputs, then your firm's productivity will
- not change.
  - increase but not double.
  - double.
  - more than double.
20. Which of the following is *not* included in U.S. GDP?
- additions of newly produced output to inventory
  - production of U.S citizens working in foreign countries.
  - the estimated rental value of owner-occupied housing
  - the value of food purchased from a grocery store to make meals at home without pay
21. A Mexican company operates a restaurant in the U.S. The value of the restaurant's output produced by Mexican citizens and the equipment they own is included in
- U.S. GNP and Mexican GNP.
  - U.S. GNP and Mexican GDP.
  - U.S. GDP and Mexican GNP.
  - U.S. GDP and Mexican GDP.
22. How is net national product (NNP) calculated?
- Saving is added to the total income of a nation's citizens.
  - Saving is added to the total income earned within a nation.
  - Depreciation losses are subtracted from the total income of a nation's citizens.
  - Depreciation losses are subtracted from the total income earned within a nation.

23. For the purpose of calculating GDP, investment is spending on
- stocks, bonds, and other financial assets.
  - real estate and financial assets such as stocks and bonds.
  - capital equipment, inventories, and structures, including household purchases of new housing.
  - capital equipment, inventories, and structures, excluding household purchases of new housing.
24. Consumer goods that are produced, go into inventory, and are not sold during the current period are
- counted as intermediate goods and so are not included in current period GDP.
  - counted in current period GDP only if the firm that produced them sells them to another firm.
  - included in current period GDP as inventory investment.
  - included in current period GDP as consumption.
25. Transfer payments are
- included in GDP because they represent income to individuals.
  - included in GDP because they eventually will be spent on consumption.
  - not included in GDP because they are not payments for currently produced goods or services.
  - not included in GDP because taxes will have to be raised to pay for them.
26. A country reported a nominal GDP of £85 billion in 2010 and £100 billion in 2009. It also reported a GDP deflator of 100 in 2010 and 105 in 2009. Between 2009 and 2010,
- real output and the price level both rose.
  - real output rose and the price level fell.
  - real output fell and the price level rose.
  - real output and the price level both fell.
27. International data on GDP and socioeconomic variables
- are inconclusive about the relationship between GDP and the economic well-being of citizens.
  - suggest that poor nations actually might enjoy a higher standard of living than do rich nations.
  - leave no doubt that a nation's GDP is closely associated with its citizens' standard of living.
  - indicate that there are few real differences in living standards around the world, in spite of the large differences in GDP between nations.

28. Unemployment compensation is
- part of GDP because it represents income.
  - part of GDP because the recipients must have worked in the past to qualify.
  - not part of GDP because it is a transfer payment.
  - not part of GDP because the payments reduce business profits.
29. Between October 2001 and October 2002, the CPI in Canada rose from 116.5 to 119.8 and the CPI in Mexico rose from 93.2 to 102.3. What were the inflation rates for Canada and Mexico over this one-year period?
- 2.8 percent for Canada and 9.1 percent for Mexico
  - 2.8 percent for Canada and 9.8 percent for Mexico
  - 3.3 percent for Canada and 9.1 percent for Mexico
  - 3.3 percent for Canada and 9.8 percent for Mexico
30. Suppose that in 2012, the producer price index increases by 1.5 percent. As a result, economists most likely will predict that
- GDP will increase in 2013.
  - the producer price index will increase by more than 1.5 percent in 2013.
  - interest rates will decrease in the future.
  - the consumer price index will increase in the future.
31. The problems with using the consumer price index as a measure of the cost of living are important because
- even the appearance of high rates of inflation cause voters to become disenchanted.
  - politicians have manipulated the measurement problems to their advantage.
  - many government programs use the CPI to adjust for changes in the overall level of prices.
  - if the price level is overstated, consumers will be taken advantage of by sellers of consumer goods.
32. The CPI and the GDP deflator
- generally move together.
  - generally show different patterns of movement.
  - always show identical changes.
  - always show different patterns of movement.
33. When looking at a graph of nominal and real interest rates you notice the graph for nominal rates and the graph for real rates cross each other many times. From this you conclude
- consumer prices sometimes rose and sometimes fell in the time frame represented on the graph.
  - consumer prices were always rising in the time frame represented on the graph.
  - the economy never experienced a recession in the time frame represented on the graph.
  - GDP was always increasing for the time frame represented on the graph.