

CHAPTER 20

These are some practice questions for CHAPTER 20. Each question should have a single answer. But be careful. There may be errors in the answer key!

19. Total value added in an economy is equal to the value of
 - a. all final goods produced.
 - b. all final and intermediate goods produced.
 - c. all inputs and outputs in the economy.
 - d. all profits of all firms in the economy.
 - e. the sum of the value of primary, intermediate and final goods.

20. The value of intermediate products
 - a. should always be counted as part of GDP in the expenditure approach.
 - b. should be subtracted from the value of final goods in determining value added.
 - c. should be added to the value of other inputs in determining a firm's contribution to GDP.
 - d. must equal the value added by the firm.
 - e. is counted as factor income in the calculation of GDP from the income side.

21. GDP from the expenditure side is equal to the sum of
 - a. $C_a + I_a + G_a + (IM_a - X_a)$.
 - b. $C_a + I_a + G_a$ - net exports.
 - c. $C_a + I_a + G_a + (X_a - IM_a)$.
 - d. $C_a + I_a + G_a$.
 - e. $C_a + I_a$ + net exports.

22. In the national accounts, a drawing down of inventories counts as
 - a. consumption.
 - b. depreciation.
 - c. disinvestment.
 - d. investment.
 - e. saving.

23. Which of the following statements concerning investment and investment goods is true?
- a. An accumulation of inventories does not count as current investment.
 - b. The total amount of capital goods in a country is called depreciation.
 - c. Net investment is equal to gross investment plus depreciation.
 - d. The capital consumption allowance refers to funds to maintain the existing stock of capital.
 - e. Housing construction is counted as consumption expenditure rather than investment expenditure.
24. Which of the following describes the investment component of GDP, as calculated from the expenditure side?
- a. net investment
 - b. net investment minus depreciation
 - c. gross investment plus depreciation
 - d. net investment plus depreciation
 - e. fixed investment minus depreciation
25. Transfer payments are not included in the government component in the calculation of GDP because
- a. they do not represent a payment for a good or a service.
 - b. they are not counted as income by any economic agent.
 - c. they do not generate additional income in the economy.
 - d. it is difficult to assess the market value of a transfer payment.
 - e. they are small enough to ignore when computing the national accounts.
26. To determine the market value of a firm's output, it is necessary to
- a. subtract indirect taxes from the firm's income.
 - b. subtract subsidies from the firm's income.
 - c. add indirect taxes to the firm's income.
 - d. add subsidies to the firm's income.
27. Gross domestic product is the sum of factor incomes _____ indirect business taxes, net of subsidies, _____ depreciation.
- a. plus; minus
 - b. minus; plus
 - c. plus; plus
 - d. minus; minus

28. One major reason that GDP is an inaccurate measure of quality of life is that
- people frequently buy things they do not want.
 - it does not include the value of leisure.
 - it is statistically very inaccurate.
 - it cannot be adjusted for changes in prices.
 - all of the above.
29. Real GDP is equivalent to
- the money value of all goods and services produced in an economy per year plus imports.
 - the market value of all goods and services produced in an economy per year.
 - personal disposable income plus depreciation.
 - the value of all goods and services produced in an economy per year deflated for price changes.
 - the nominal value of GNP multiplied by the GDP deflator.

The table below shows total output for an economy over 2 years.

1998	Price	Quantity
Good A	\$1.00	100 units
Good B	\$2.00	200 units
Good C	\$5.00	100 units

1999	Price	Quantity
Good A	\$2.00	120 units
Good B	\$3.00	200 units
Good C	\$10.00	98 units

TABLE 20-1

30. Refer to Table 20-1. The implicit GDP deflator in 1999 was approximately
- 105.
 - 160.
 - 180.
 - 193.
 - 203.

The table below shows total output for an economy over 2 years.

```

*****
1998      Price      Quantity
*****
Good A    $1.50        200 units
Good B    $3.00        400 units
Good C    $7.50        200 units

1999      Price      Quantity
*****
Good A    $3.00        240 units
Good B    $4.50        400 units
Good C    $15.00       200 units
*****

```

TABLE 20-2

31. Refer to Table 20-2. The nominal Gross Domestic Product in 1999 was
- \$5520.
 - \$5280.
 - \$4800.
 - \$3000.
 - \$840.

The table below shows total output for an economy over 2 years.

```

*****
Year      Money GDP*      Implicit
              Deflator      Real GDP*
*****
1995      $_____      105      $760,000
1996      $820,000      106      $_____
1997      $855,000      ____     $800,000
*millions of dollars
*****

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TABLE 20-3

32. Refer to Table 20-3. The real GDP in 1996, expressed in 1992 dollars (base year), was
- \$900,000.
 - \$869,000.
 - \$800,000.
 - \$798,000.
 - \$773,585.

33. Refer to Table 20-3. The nominal growth rate from 1996 to 1997 was
- a. 5.00 percent.
 - b. 4.27 percent.
 - c. 4.09 percent.
 - d. 3.36 percent.
 - e. 2.76 percent.
34. Refer to the graph below, Figure 20-1. Nominal GDP increased by approximately _____ percent between 1985 and 1990.
- a. 20
 - b. 40
 - c. 60
 - d. 80
 - e. 100

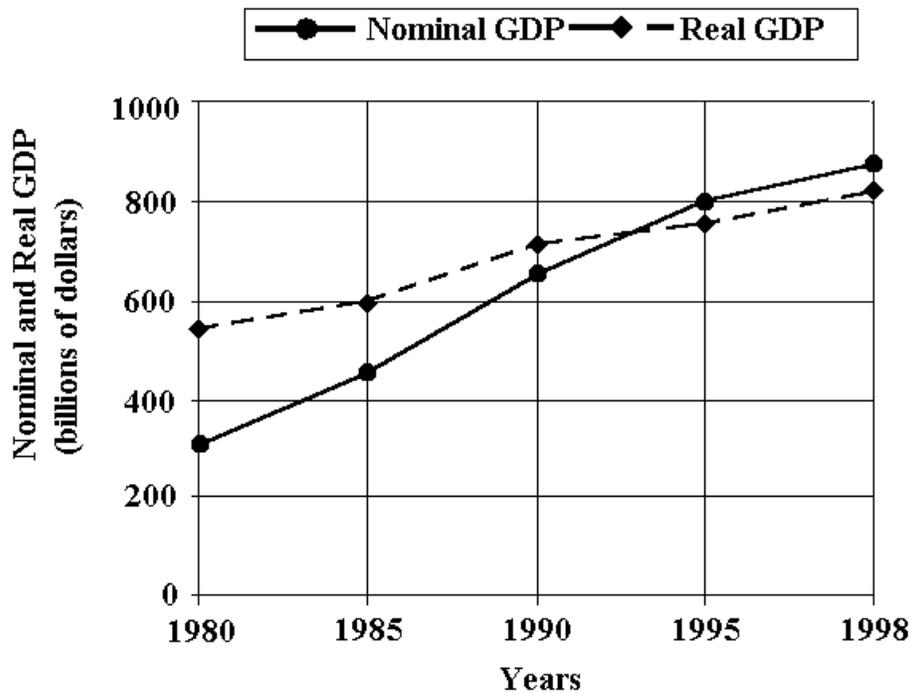


FIGURE 20-1

35. Refer to the graph below, Figure 20-1. The implicit GDP deflator in 1998 is approximately
- a. 90.
 - b. 100.
 - c. 110.
 - d. 130.
 - e. 150.

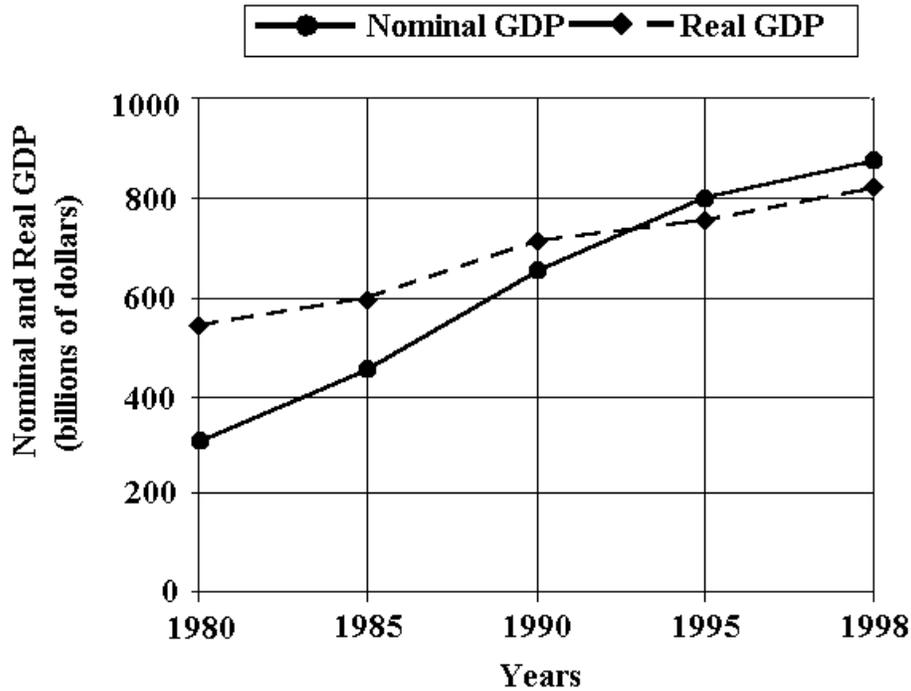


FIGURE 20-1

36. Production in the underground economy is omitted from measured GDP because it
- a. is unreported.
 - b. is illegal.
 - c. is unimportant.
 - d. involves mainly transfer payments.
 - e. involves no payments for current final production.

19. a
20. b
21. c
22. c
23. d
24. d
25. a
26. b
27. c
28. b
29. d
30. c
31. a
32. e
33. b
34. b
35. c
36. a