Study Questions 1 (GDP)

Name___________________________________

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Gross domestic product is a measure of the total value of all
   A) consumer income in an economy over a period of time.
   B) capital accumulation in an economy over a period of time.
   C) sales in an economy over a period of time.
   D) final goods and services produced in an economy over a period of time.
   
2) If Nike, an American corporation, produces sneakers in Thailand this would
   A) add to neither U.S. GDP nor Thailand's GDP.
   B) add to Thailand's GDP but not to U.S. GDP.
   C) count as part of U.S. GDP since it is a U.S. corporation.
   D) count for both Thailand's GDP and U.S. GDP.
   
3) In 2009, Ozzie purchased a 1999 Ford Escort from his neighbor for his son, purchased a 1999 "one
   owner" Camry from Larchmont Toyota for his wife, bought a 2009 new Ford for himself, and sold
   his 1993 Dodge Caravan to his teenage nephew. Which, if any, of these transactions will be
   included in GDP in 2009?
   A) only the purchase of the Ford
   B) the purchase of the Ford and the Caravan
   C) all four transactions
   D) all three purchases but not the sale
   
4) Intermediate goods are excluded from GDP because
   A) they represent goods that have never been purchased so they cannot be counted.
   B) their inclusion would understate GDP
   C) their inclusion would involve double counting.
   D) the premise of the question is incorrect because intermediate goods are directly included in
   calculating GDP.
   
5) Which of the following is NOT a final good?
   A) a purse sold to a foreign visitor
   B) a new computer sold to an NYU student
   C) a hot dog sold to a spectator at a Chicago Bears football game
   D) a new car sold to Avis for use in their fleet of rental cars
   
6) The base-year method of calculating real GDP compared
   A) quantities produced in different years using prices from a year chosen as a reference period.
   B) quantities produced in different years with the prices that prevailed during the year in which
      the output was produced.
   C) the quantities of goods produced in consecutive years using prices in both years and
      averaging the percentage changes in the value of output.
   D) prices at different points in time using a sample of goods that is representative of goods
      purchased by households.
Economists distinguish real GDP from nominal GDP to  
A) determine whether economic welfare has changed.  
B) determine whether real production has changed.  
C) measure the change in nominal interest rates.  
D) determine whether the government sector is growing.

In any year, real GDP
A) faster than  
B) slower than  
C) increases the amount by which U.S. GDP is larger than that of any other nation.  
D) sometimes faster, sometimes slower, and sometimes at the same rate as

In years with inflation, nominal GDP increases ________ real GDP.
A) at the same rate as  
B) faster than  
C) slower than  
D) sometimes faster, sometimes slower, and sometimes at the same rate as

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

Real GDP can be criticized as a measure of economic welfare because it
A) does not include the value of products produced in the household.  
B) does not include leisure time available to a society.  
C) does not take account of the degradation of environmental quality.  
D) All of the above answers are correct.

A country that has a large real GDP per person might not necessarily have a high level of economic welfare because it may have
A) environmental problems.  
B) little leisure time.  
C) very little political freedom.  
D) All of the above answers are correct.

In calculating GDP, household production is
A) included as part of consumption.  
B) ignored because it is not a large amount.  
C) included under employee compensation.  
D) not included because there is no market transaction.

In the post World War II period, considerable growth in total production took place in the U.S. But at the same time, businesses were dumping their waste into the Great Lakes with minimal cost to themselves, significantly polluting the bodies of water as a result. This occurrence is an example where
A) the pollution counts as a final good.  
B) investment would have been a better measure of total production.  
C) real GDP gives an overly negative view of economic welfare.  
D) real GDP gives an overly positive view of economic welfare.

The use of purchasing power parity prices
A) weakens the validity of cross country comparisons of economic welfare.  
B) increases the amount by which U.S. GDP is larger than that of any other nation.  
C) accounts for differences in the prices of the same goods in different countries when measuring real GDP.  
D) decreases the real GDP per person statistics published by the International Monetary Fund.
<table>
<thead>
<tr>
<th>Product</th>
<th>Quantity</th>
<th>Price per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coke</td>
<td>10,000</td>
<td>$2</td>
</tr>
<tr>
<td>iPods</td>
<td>2,000</td>
<td>$150</td>
</tr>
<tr>
<td>Backpacks</td>
<td>4,000</td>
<td>$25</td>
</tr>
<tr>
<td>Hershey bars</td>
<td>8,000</td>
<td>$1</td>
</tr>
</tbody>
</table>

15) Refer to Table 19-1. Consider the table of production and price statistics for a small economy in 2008. If the economy only produces the four goods listed below, what is GDP for 2008?

A) $428,000  
B) $24,000  
C) $267,000  
D) $1,424  

16) Between 2007 and 2008, if an economy’s exports rise by $8 billion and its imports fall by $8 billion, by how much will GDP change between the two years, all else equal?

A) The change in net exports will increase GDP by $8 billion.
B) The increase in exports is offset by the decrease in imports, so there is no change in net exports and no effect on GDP.
C) The change in net exports will decrease GDP by $8 billion.
D) The change in net exports will increase GDP by $16 billion.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

<table>
<thead>
<tr>
<th>Product</th>
<th>Quantity</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel</td>
<td>1,000</td>
<td>$100</td>
</tr>
<tr>
<td>iPods</td>
<td>5,000</td>
<td>$300</td>
</tr>
<tr>
<td>Autos</td>
<td>500</td>
<td>$25,000</td>
</tr>
<tr>
<td>legal services</td>
<td>100</td>
<td>$2,000</td>
</tr>
</tbody>
</table>

17) Refer to Table 19-2. Suppose that the following table above represents the goods and services produced in a very simple economy. Assume that steel is used as an input in the production of autos. Using that information, calculate GDP for the year 2006.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

18) The measure of production that values production using current prices is called

A) underground GDP.  
B) nominal GDP.  
C) real GDP.  
D) value added GDP.
19) **Refer to Table 19-4.** Given the information above, what can we say has happened in the economy from 2004 and 2005?

A) The price level has remained constant.
B) The price level has risen.
C) The price level has fallen.
D) Not enough information is available to determine what has happened to prices.

### Table 19-5

<table>
<thead>
<tr>
<th>Product</th>
<th>Quantity</th>
<th>2002</th>
<th>Price</th>
<th>2007</th>
<th>Quantity</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Movies</td>
<td>20</td>
<td>$6</td>
<td>30</td>
<td>$7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Burgers</td>
<td>100</td>
<td>$2</td>
<td>90</td>
<td>$2.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bikes</td>
<td>3</td>
<td>$1,000</td>
<td>6</td>
<td>$1,100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

20) **Refer to Table 19-5.** Suppose that a very simple economy produces three goods: movies, burgers, and bikes. Suppose the quantities produced and their corresponding prices for 2002 and 2007 are shown in the table above. What is nominal GDP in 2007?

A) $7,035  
B) $6,360  
C) $3,320  
D) $3,690

21) **Refer to Table 19-5.** Suppose that a very simple economy produces three goods: movies, burgers, and bikes. Suppose the quantities produced and their corresponding prices for 2002 and 2007 are shown in the table above. What is nominal GDP in 2002?

A) $6,360  
B) $3,320  
C) $7,035  
D) $3,690

22) **Refer to Table 19-5.** Suppose that a very simple economy produces three goods: movies, burgers, and bikes. Suppose the quantities produced and their corresponding prices for 2002 and 2007 are shown in the table. What is real GDP in 2007, using 2002 as the base year?

A) $3,690  
B) $6,360  
C) $3,320  
D) $7,035

### Table 19-6

<table>
<thead>
<tr>
<th>Product</th>
<th>Quantity</th>
<th>2006</th>
<th>Price</th>
<th>2009</th>
<th>Quantity</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Camera</td>
<td>100</td>
<td>$10</td>
<td></td>
<td>120</td>
<td>$12</td>
<td></td>
</tr>
<tr>
<td>Legal Services</td>
<td>50</td>
<td>$15</td>
<td></td>
<td>45</td>
<td>$20</td>
<td></td>
</tr>
<tr>
<td>Books</td>
<td>200</td>
<td>$40</td>
<td></td>
<td>210</td>
<td>$45</td>
<td></td>
</tr>
</tbody>
</table>

23) **Refer to Table 19-6.** Suppose that a very simple economy produces three goods: cameras, legal services, and books. Suppose the quantities produced and their corresponding prices for 2006 and 2009 are shown in the table above. What is real GDP in 2006, using 2009 as the base year?

A) $28,885  
B) $11,790  
C) $10,275  
D) $11,200
24) Refer to Table 19-6. Suppose that a very simple economy produces three goods: cameras, legal services, and books. Suppose the quantities produced and their corresponding prices for 2006 and 2009 are shown in the table above. What is real GDP in 2009, using 2009 as the base year?
   A) $28,885  B) $11,790  C) $10,275  D) $11,200

25) Refer to Table 19-6. Suppose that a very simple economy produces three goods: cameras, legal services, and books. Suppose the quantities produced and their corresponding prices for 2006 and 2009 are shown in the table above. What is nominal GDP in 2009 when 2006 is the base year?
   A) $11,200  B) $11,790  C) $28,885  D) $10,275

26) If nominal GDP rises we can say that
   A) production has fallen and prices have risen.
   B) production has risen and prices remain constant.
   C) production has risen or prices have risen or both have risen.
   D) prices have risen and production remains constant.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

Table 19-9

<table>
<thead>
<tr>
<th>Product</th>
<th>2002</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity</td>
<td>Price</td>
</tr>
<tr>
<td>Pizzas</td>
<td>100</td>
<td>$10</td>
</tr>
<tr>
<td>Haircuts</td>
<td>50</td>
<td>$15</td>
</tr>
<tr>
<td>Backpacks</td>
<td>200</td>
<td>$40</td>
</tr>
</tbody>
</table>

27) Refer to Table 19-9. Suppose that a very simple economy produces three goods: pizzas, haircuts, and backpacks. Suppose the quantities produced and their corresponding prices for 2002 and 2006 are shown in the table above. Use the information to compute real GDP in the year 2002 and 2006. Assume that 2002 is the base year. Is output higher in 2006 or 2002? Why?
1) D
2) B
3) A
4) C
5) D
6) A
7) B
8) B
9) A
10) D
11) D
12) D
13) D
14) C
15) A
16) D
17) First, we must decide which goods to include in the calculation of GDP. GDP is defined as the money value of final goods and services produced. Since steel is included in the production of autos, it is an intermediate good, not a final good. So steel should be excluded from the calculation. Final goods and services are goods and services consumed by the ultimate user of the good or service. All the other goods and services in the table are considered final goods.

Next, the money value of these final goods and services must be calculated. The money value is found by multiplying the price of the good or service times the quantity produced of that good or service. The total money value is found by summing up the individual money values. Thus GDP for 2006 = $300 \times 5,000 + $ 25,000 \times 500 + $2,000 \times 100 = $1,500,000 + $12,500,000 + 200,000 = $14,200,000.

18) B
19) B
20) A
21) B
22) B
23) D
24) B
25) B
26) C
27) Recall that real GDP is found by valuing GDP in a particular year using base year prices. Since 2002 is the base year, real GDP for 2002 is found by multiplying 2002 prices by 2002 quantities and then adding the values up. The individual values for 2002 are calculated in the following table:

<table>
<thead>
<tr>
<th>Product</th>
<th>Quantity</th>
<th>Price</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pizzas</td>
<td>100</td>
<td>$10</td>
<td>$1000</td>
</tr>
<tr>
<td>Haircuts</td>
<td>50</td>
<td>$15</td>
<td>$750</td>
</tr>
<tr>
<td>Backpacks</td>
<td>200</td>
<td>$40</td>
<td>$8000</td>
</tr>
</tbody>
</table>

Therefore, Real GDP for 2002 =

Quantity of pizza in 2002 × price of pizza in 2002 = $1,000
Quantity of haircuts in 2002 × price of haircuts in 2002 = $750
Quantity of backpacks in 2002 × price of backpacks in 2002 = $8,000
Total $9,750.

The individual values for 2006 output and prices in 2002 are calculated in the following table:

<table>
<thead>
<tr>
<th>Product</th>
<th>Quantity</th>
<th>Price</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pizzas</td>
<td>120</td>
<td>$10</td>
<td>$1200</td>
</tr>
<tr>
<td>Haircuts</td>
<td>45</td>
<td>$15</td>
<td>$675</td>
</tr>
<tr>
<td>Backpacks</td>
<td>210</td>
<td>$40</td>
<td>$8400</td>
</tr>
</tbody>
</table>

Therefore, Real GDP for 2006 =

Quantity of pizza in 2006 × price of pizza in 2002 = $1,200
Quantity of haircuts in 2006 × price of haircuts in 2002 = $675
Quantity of backpacks in 2006 × price of backpacks in 2002 = $8,400
Total $10,275.

Since real GDP is a measure of output, and real GDP is higher in 2006 as compared to 2002, output has increased.