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Problem Set 2

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

1) The expenditure approach to GDP is shown by which of the following equations?
   A) GDP = C + I + G + EX + IM
   B) GDP = C + I + G + (IM – EX
   C) GDP = C + I + G - EX - IM
   D) GDP = C + I + G + EX - IM

Refer to the information provided in Table 6.1 below to answer the questions that follow.

Table 6.1

	$Billions
Durable goods	500
Nonresident investment	300
Federal purchase of goods	400
Exports	300
State and local purchases of goods	150
Residential investment	100
Services	700
Imports	200
Change in business inventories	–50
Nondurable goods	700

2) Refer to Table 6.1. Personal consumption expenditures in billions of dollars are:
   A) 1,275.   B) 1,200.   C) 1,900.   D) 1,075.

3) Refer to Table 6.1. The value for gross private domestic investment in billions of dollars is:
   A) 400.   B) 350.   C) 325.   D) 450.

4) Refer to Table 6.1. The value for net exports in billions of dollars is:
   A) -200.   B) 500.   C) -150.   D) 100.

5) Refer to Table 6.1. The value of gross domestic product in billions of dollars is:
   A) 2,750.   B) 1,950.   C) 2,900.   D) 2,500.

6) If the change in business inventories is positive, then final sales are:
   A) less than GDP.   B) greater than GDP.
   C) zero.   D) equal to GDP.

7) Gross investment minus depreciation equals:
   A) GNP.   B) GDP.
   C) change in business inventories.   D) net investment.

8) If net investment is positive, then:
   A) gross investment is greater than depreciation.
   B) depreciation is negative.
   C) gross investment equals depreciation.
   D) gross investment is less than depreciation.

9) The yearly value of worn out machinery is called:
   A) capital gains.   B) non-durable goods.
   C) depreciation.   D) net investment.

10) When calculating GDP, _____ are added and _____ are subtracted.
   A) exports; imports   B) imports; exports
   C) imports; net exports   D) exports; net exports

11) If the value of net exports is positive, then:
   A) exports equal imports.   B) imports exceed exports.
   C) exports exceed imports.   D) imports are zero.

12) When GDP is measured in "current prices" it is known as the:
   A) nominal GNP.   B) real GDP.   C) real GNP.   D) nominal GDP.

13) When GDP is measured using "adjustments for price changes" it is known as the:
   A) real GDP.   B) nominal GDP.   C) nominal GNP.   D) real GNP.

14) If the economy grows at 10 percent from year 1 to year 2 and real GDP is 300 in year 1, what will real GDP be in year 2?
   A) 330   B) 315   C) 10   D) 300

15) When differences between nominal GDP and real GDP result due to price changes and nothing else is compared, an index called the _____ is created.
   A) consumer price index   B) inflation index
   C) GDP deflator   D) index of leading indicators

16) If real GDP in 2006 using 2005 prices is higher than nominal GDP of 2006, then:
   A) nominal GDP in 2006 equals nominal GDP in 2005.
    B) prices in 2006 are higher than prices in 2005.
   C) real GDP in 2006 is smaller than real GDP in 2005.
   D) prices in 2006 are lower than prices in the base year.

Refer to the information provided in Table 6.5 below to answer the questions that follow.

Table 6.5

	Production			Prices		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Good X	40	50	80	$1.00	$1.10	$1.20
Good Y	100	110	120	$0.50	$0.80	$1.00

17) Refer to Table 6.5. Assume that this economy produces only two goods Good X and Good Y. The value for this economy's nominal GDP in year 1 is:
   A) $140.   B) $120.   C) $90.   D) $100.

18) Refer to Table 6.5. Assume that this economy produces only two goods Good X and Good Y. The value for this economy's nominal GDP in year 3 is:
   A) $148.   B) $240.   C) $140.   D) $216.

19) Refer to Table 6.5. Assume that this economy produces only two goods Good X and Good Y. If year 1 is the base year, the value for this economy's GDP deflator in year 1 is:
   A) 95.   B) 105.   C) 100.   D) 115.

20) If nominal GDP is $12 trillion and real GDP is $3 trillion, the GDP deflator is:
   A) 400.   B) 15.   C) 4.   D) 36.

21) The GDP deflator in year 4 is 120 and the GDP deflator in year 5 is 130. The rate of inflation between years 4 and 5 is:
   A) 7.7%.   B) 10%.   C) 8.33%.   D) -10%.

22) The GDP deflator in year 3 is 85 using year 1 as a base year. This means that, on average, the cost of goods and services is:
   A) 15% higher in year 3 than in year 1.   B) 7.5% higher in year 1 than in year 3.
   C) 15% higher in year 1 than in year 3.   D) 7.5% higher in year 3 than in year 1.