Exam

Name_____

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

1) Jim's Nursery produces and sells $1,100 worth of flowers. Jim uses no intermediate inputs. He pays his workers $700 in wages, pays $100 in taxes and pays $200 in interest on a loan. Jim's contribution to GDP is

1) _____

   A) $1,000.   B) $2,000.   C) $900.   D) $1,100.   E) $1,800.

Answer: D

Explanation: A)
                    B)
                    C)
                    D)
                    E)

2) To calculate value added, we need to subtract

2) _____

   A) the cost of domestic- and foreign-produced intermediate inputs.
   B) the cost of all goods and services exported.
   C) only the cost of domestically produced intermediate inputs.
   D) only the cost of foreign-produced intermediate inputs.
   E) total imports.

Answer: A

Explanation: A)
                    B)
                    C)
                    D)
                    E)

For the following question(s), suppose an economy produces only pens and pencils, and that the quantity and price data is giv
this table:

	Pens	Pencils
Year 1 quantity	15	10
Year 1 price	$12	$12
Year 2 quantity	17	12
Year 2 price	$14	$15

3) What is the real GDP in year 2 using base year 2?   3) _____

    A) $414   B) $418   C) $338   D) $300   E) $360

Answer: B

Explanation: A)
                        B)
                        C)
                        D)
                        E)

4) Construction of chain-weighted real GDP employs the technique of a(n)   4) _____

    A) Fisher index.

    B) body mass index.

    C) inflation rate index.

    D) Gini index.

    E) Herfindahl index.

Answer: A

Explanation: A)
                        B)
                        C)
                        D)
                        E)

For the following question(s), suppose an economy produces only pens and pencils, and that the quantity and price data is giv
this table:

	Pens	Pencils
Year 1 quantity	15	10
Year 1 price	$12	$12
Year 2 quantity	17	12
Year 2 price	$14	$15

5) What is the real GDP in year 1 using base year 1?   5) _____

    A) $418   B) $338   C) $300   D) $294   E) $360

Answer: C

Explanation: A)
                      B)
                      C)
                      D)
                      E)

6) Pamela's bakery produces 500 loaves of bread in a given year. Pamela pays $100 for flour and   6) _____
yeast, pays $600 in wages, pays $50 in interest on an existing loan, and pays $100 in taxes to the
government. One of Pamela's bread slicing machines, which cost $75 each, wears out over the
course of the year and must be scrapped. Pamela's profit for the year equals $75. Pamela's bread,
therefore, sells for

    A) $2.00 per loaf.

    B) $1.00 per loaf.

    C) $1.50 per loaf.

    D) $0.50 per loaf.

    E) cannot tell, insufficient information.

Answer: A

Explanation: A)
                      B)
                      C)
                      D)
                      E)

7) Even when measured accurately, GDP may be a misleading measure of economic welfare because it cannot account for

    A) the value of non-market production and the consequences of an unequal distribution of income.

    B) the value of government spending and how efficiently we produce goods and services.

    C) the cost of intermediate goods and services.

    D) the consequences of an unequal distribution of income and the value of government spending.

    E) how efficiently we produce goods and services and the value of non-market production.

Answer: A

Explanation: A)

                B)

                C)

                D)

                E)

8) When there is rapid inflation

    A) growth in nominal GDP exceeds growth in real GDP.

    B) there can never be any growth in nominal GDP.

    C) government tries to increase growth in real GDP.

    D) growth in real GDP exceeds growth in nominal GDP.

    E) growth in real GDP and nominal GDP are roughly equal.

Answer: A

Explanation: A)

                B)

                C)

                D)

                E)

9) National savings must equal

    A) $Y - NFP + C + G$.

    B) $T - TR - INT - G$.

    C) $I - NX - NFP$.

    D) $I + NX + NFP$.

    E) $Y_d - C$.

Answer: D

Explanation: A)

                B)

                C)

                D)

                E)

10) It is difficult to accurately measure real GDP because

    A) it cannot take into account changes in government policy over time.

    B) it does not include money transfers.

    C) it does not take into account intermediate goods.

    D) it does not accurately take into account the introduction of new goods.

    E) it does not include taxes.

Answer: D

Explanation: A)

                B)

                C)

                D)

                E)

11) Real GDP values current production at

    A) base year prices.

    B) the average of price levels over the entire sample period.

    C) current year prices.

    D) the purchase price not the asking prices of goods and services.

    E) the best estimate of next year's prices.

Answer: A

Explanation: A)

                B)

                C)

                D)

                E)

12) Significant problems with measuring real GDP and the price level include

    A) changes in standards of living.

    B) changes in relative price levels.

    C) changes in consumption patterns.

    D) changes in the number of consumers.

    E) purchases of used goods.

Answer: B

Explanation: A)

                B)

                C)

                D)

                E)

13) The income approach to calculating GDP is 13) _____
    A) the sum of all consumer income earned.
    B) the sum of all incomes earned from production.
    C) net of taxes.
    D) the sum of all business income earned.
    E) all the spending on goods and services earned by consumer's income.

Answer: B
Explanation: A)
                    B)
                    C)
                    D)
                    E)

For the following question(s), suppose that an economy produces only food and clothing, and that price and quantity data are given in the table below.

Year 1

Good	Quantity	Price
Food	20	$6
Clothing	10	$6

Year 2

Good	Quantity	Price
Food	25	$10
Clothing	20	$7

14) Year 2 nominal GDP is 14) _____
    A) $390.   B) $310.   C) $270.   D) $200.   E) $450.

Answer: A
Explanation: A)
                    B)
                    C)
                    D)
                    E)

15) Acme Steel Co. produces 1,000 tons of steel. Steel sells for $30 per ton. Acme pays wages of 15) _____
$10,000. Acme buys $15,000 worth of coal, which is needed to produce the steel. Acme pays $2,000
in taxes. Acme's contribution to GDP is
    A) $60,000.   B) $45,000.   C) $30,000.   D) $15,000.   E) $20,000.

Answer: D
Explanation: A)
                    B)
                    C)
                    D)
                    E)

16) Suppose that in a given country in a given year, GNP equals $2,000, investment expenditures equal $200, government expenditures equal $150, and the current account surplus equals $50. Consumption expenditures therefore equals

   A) $160.   B) $230.   C) $1,000.   D) $140.   E) $120.

16) _____

Answer: A

Explanation: A)
                B)
                C)
                D)
                E)

17) Suppose that GDP is equal to 1,000, national saving is equal to 200, the current account deficit is equal to 100, and the government budget deficit is equal to 50. Investment must equal

   A) 200.   B) 150.   C) 250.   D) 300.   E) 350.

17) _____

Answer: D

Explanation: A)
                B)
                C)
                D)
                E)

18) An example of a flow would be the

   A) rate at which the cold water comes out of the tap.
   B) amount of water in a bathtub.
   C) rate at which water goes down the drain.
   D) percent of pollutants in tap water.
   E) pressure of water in a pipe.

18) _____

Answer: C

Explanation: A)
                B)
                C)
                D)
                E)

19) Government expenditures does NOT include   19) _____
        A) government consumption.
        B) provincial and municipal spending.
        C) government investment.
        D) federal government spending.
        E) transfers.
    Answer: E
    Explanation: A)
                    B)
                    C)
                    D)
                    E)

20) Significant problems with measuring real GDP and the price level include   20) _____
        A) changes in the importance of intermediate goods.
        B) changes in the population size.
        C) purchases of used goods.
        D) changes in the quality of goods over time.
        E) changes in the size of the government.
    Answer: D
    Explanation: A)
                    B)
                    C)
                    D)
                    E)

21) Inventory investment consists of   21) _____
        A) goods in process, raw materials, and purchases of office machinery.
        B) raw materials, goods in process, and construction expenditures.
        C) used finished goods.
        D) construction expenditures, raw materials, and inventories of finished goods.
        E) inventories of finished goods, goods in process, and raw materials.
    Answer: E
    Explanation: A)
                    B)
                    C)
                    D)
                    E)

22) Additions to the nation's capital stock are brought about through

22) _____

    A) investment.

    B) the current account surplus.

    C) investment and the current account surplus.

    D) government deficit.

    E) investment and the government budget surplus.

Answer: A

Explanation: A)

                  B)

                  C)

                  D)

                  E)

23) The income approach to calculating GDP includes

23) _____

    A) exports of income earned.

    B) net interest income.

    C) consumer spending.

    D) government surpluses.

    E) investment.

Answer: B

Explanation: A)

                  B)

                  C)

                  D)

                  E)

24) Acme Steel Co. produces 1,000 tons of steel. Steel sells for $30 per ton. Acme pays wages of $10,000. Acme buys $15,000 worth of coal, which is needed to produce the steel. Acme pays $2,000 in taxes. Acme's profit is

24) _____

    A) $25,000.   B) $15,000.   C) $2,000.   D) $0.   E) $3,000.

Answer: E

Explanation: A)

                  B)

                  C)

                  D)

                  E)

25) GDP may inaccurately measure the value of aggregate output because it may not properly account for

    A) the proper value of purchases and sales of used goods and depreciation of consumer durables.

    B) production in the underground economy and the true value of government production.

    C) all services produced.

    D) the true value of government production and the proper value of purchases and sales of used goods.

    E) the depreciation of consumer durables and production in the underground economy.

25) _____

Answer: B

Explanation: A)
                 B)
                 C)
                 D)
                 E)

For the following question(s), suppose an economy produces only pens and pencils, and that the quantity and price data is giv this table:

	Pens	Pencils
Year 1 quantity	15	10
Year 1 price	$12	$12
Year 2 quantity	17	12
Year 2 price	$14	$15

26) What is the real GDP in year 1 using base year 2?

    A) $360   B) $418   C) $294   D) $300   E) $338

26) _____

Answer: A

Explanation: A)
                 B)
                 C)
                 D)
                 E)

27) Investment spending is

    A) less volatile than GDP.

    B) less volatile than consumption.

    C) a smaller share of GDP than consumption.

    D) the share of stock prices to GDP.

    E) a larger share of GDP than consumption.

27) _____

Answer: C

Explanation: A)

                    B)

                    C)

                    D)

                    E)

For the following question(s), suppose that an economy produces only food and clothing, and that price and quantity data are given in the table below.

Year 1

Good	Quantity	Price
Food	20	$6
Clothing	10	$6

Year 2

Good	Quantity	Price
Food	25	$10
Clothing	20	$7

28) Suppose that Year 2 is the base year. Year 1 real GDP is

    A) $200.   B) $390.   C) $270.   D) $450.   E) $310.

28) _____

Answer: C

Explanation: A)

                    B)

                    C)

                    D)

                    E)

29) The expenditure approach to calculating GDP includes

    A) consumption.

    B) taxes.

    C) intermediate goods.

    D) wage income.

    E) net factor payments.

Answer: A

Explanation: A)

                   B)

                   C)

                   D)

                   E)

29) _____

30) Investment spending is

    A) much more volatile than consumption spending.

    B) equally volatile as GDP.

    C) less volatile than consumption spending.

    D) a larger fraction of GDP than consumption is.

    E) equally as volatile as government spending.

Answer: A

Explanation: A)

                   B)

                   C)

                   D)

                   E)

30) _____

31) The implicit GDP price deflator can be defined as

    A) the consumer price index.

    B) (Nominal GDP + Real GDP) / 2.

    C) (Real GDP / Nominal GDP) * 100.

    D) Nominal GDP - Real GDP.

    E) (Nominal GDP / Real GDP) * 100.

Answer: E

Explanation: A)

                   B)

                   C)

                   D)

                   E)

31) _____

32) Discouraged workers are

    A) those who would like to find a second job to supplement their income, but have not yet found one.

    B) those who have given up looking for work, even though they would like to be employed.

    C) those who quit working because they are dissatisfied with their jobs.

    D) those who only work in the summer months.

    E) those who unmotivated workers who bring down a country's productivity.

Answer: B

Explanation: A)
                B)
                C)
                D)
                E)

32) _____

33) Value added is equal to the value of a firm's production minus

    A) all of its costs of production.

    B) costs of production.

    C) investment expenditures.

    D) intermediate goods used in production.

    E) labour costs.

Answer: D

Explanation: A)
                B)
                C)
                D)
                E)

33) _____

34) If a particular measure of real GDP consistently underestimates growth in real GDP, then the rate of inflation as measured by the GDP deflator

    A) will be overestimated and underestimated equally often.

    B) is not a good predictor of the inflation rate in the CPI.

    C) will consistently be underestimated.

    D) cannot be calculated.

    E) will consistently be overestimated.

Answer: E

Explanation: A)
                B)
                C)
                D)
                E)

34) _____

35) Suppose that g_1 represents the ratio of year 2 GDP to year 1 GDP, both valued at year 1 prices.   35) _____
   Suppose that g_2 represents the ratio of year 2 GDP to year 1 GDP, both valued at year 2 prices.
   The ratio of chain-weighted year 2 GDP to chain-weighted year 1 GDP equals

   A) $\sqrt{g_1 \times g_2}$.
   B) $\sqrt{g_1 / g_1}$.
   C) $(g_1 + g_2)/2$.
   D) $(\sqrt{g_1} + \sqrt{g_2})/2$.
   E) $(g_1 \times g_2)/2$.

   Answer: A
   Explanation: A)
                        B)
                        C)
                        D)
                        E)

For the following question(s), suppose that an economy produces only food and clothing, and that price and quantity data are given in the table below.

Year 1

Good	Quantity	Price
Food	20	$6
Clothing	10	$6

Year 2

Good	Quantity	Price
Food	25	$10
Clothing	20	$7

36) Year 1 nominal GDP is   36) _____
   A) $270.   B) $310.   C) $390.   D) $450.   E) $200.

   Answer: E
   Explanation: A)
                        B)
                        C)
                        D)
                        E)

37) In Canada, real GDP is currently calculated using

    A) a chain-weighting scheme.

    B) an autoregressive scheme.

    C) a variable-weighting scheme.

    D) constant-inflation scheme.

    E) a fixed-weighting scheme.

37) _____

Answer: A

Explanation: A)

               B)

               C)

               D)

               E)

38) Private disposable income is equal to

    A) $Y + NFP + TR + INT - T$.

    B) $Y - NFP - R - INT + T$.

    C) $Y - TR - INT + T$.

    D) $Y + TR + INT - T$.

    E) $Y + CA - G$.

38) _____

Answer: A

Explanation: A)

               B)

               C)

               D)

               E)

39) The income-expenditure identity is best paraphrased as

    A) all spending generates income.

    B) all income is spent.

    C) all profits are used for investment spending.

    D) on average, consumers cannot save.

    E) on average, government can spend no more than what it collects in income taxes.

39) _____

Answer: A

Explanation: A)

               B)

               C)

               D)

               E)

40) In 2017, which of the following comprised less than 5% of GDP? 40) _____

    A) imports

    B) net exports

    C) exports

    D) government spending

    E) investment

Answer: B

Explanation: A)

                 B)

                 C)

                 D)

                 E)

41) The value of a producer's output minus the value of all intermediate goods used in the production 41) _____
of that output is called the producer's

    A) profit margin.

    B) accounting profit.

    C) costs of production.

    D) value added.

    E) net output.

Answer: D

Explanation: A)

                 B)

                 C)

                 D)

                 E)

For the following question(s), suppose that an economy produces only bread and computers. Assume that all production is consumed in each year, and that price and quantity data are given in the table below.

Year 1

Good	Quantity	Price
Bread	30	$10
Computers	10	$50

Year 2

Good	Quantity	Price
Bread	40	$15
Computers	30	$60

42) If Year 1 is the base year, the CPI for Year 2 is approximately   42) _____

    A) 126.3.   B) 131.3.   C) 100.0.   D) 181.0.   E) 211.0.

Answer: B

Explanation: A)
                       B)
                       C)
                       D)
                       E)

43) Suppose that the government collects $3 million in taxes, pays $2 million in Employment   43) _____
Insurance benefits, pays $0.5 million in interest on the national debt, and pays workers $1 million
to sit at their desks and work as little as possible. The government's contribution to GDP is

    A) $3 million.
    B) $0.
    C) $3.5 million.
    D) $1 million.
    E) $1.5 million.

Answer: D

Explanation: A)
                       B)
                       C)
                       D)
                       E)

44) GDP is published by Statistics Canada as part of the 44) _____
    A) Labour Force Statistics.
    B) National Income and Expenditure Accounts (NIEA).
    C) Current Population Survey.
    D) GDP Statistical Review.
    E) Survey of Current Business.

Answer: B
Explanation: A)
                    B)
                    C)
                    D)
                    E)

45) Gross domestic product is defined as 45) _____
    A) the value of all goods produced in the economy in a given time period within the borders of Canada.
    B) the total market value of the final goods and services produced during a given time period within the borders of Canada.
    C) the total market value of all the intermediate goods and services produced in the economy for a given time period within the borders of Canada.
    D) the market value of all goods and services produced in the economy during a given time period within the borders of Canada.
    E) the market value of all goods and services produced by Canadian residents domestically and abroad.

Answer: A
Explanation: A)
                    B)
                    C)
                    D)
                    E)

For the following question(s), suppose that an economy produces only food and clothing, and that price and quantity data are given in the table below.

Year 1

Good	Quantity	Price
Food	20	$6
Clothing	10	$6

Year 2

Good	Quantity	Price
Food	25	$10
Clothing	20	$7

46) Suppose that Year 1 is the base year. Year 2 real GDP is 46) _____
    A) $450.   B) $200.   C) $390.   D) $270.   E) $310.

Answer: E

Explanation: A)
                B)
                C)
                D)
                E)

47) Approaches to measuring GDP include 47) _____
    A) GDP approach.
    B) cost approach.
    C) income approach.
    D) value-subtracted approach.
    E) trade approach.

Answer: C

Explanation: A)
                B)
                C)
                D)
                E)

48) Suppose that GDP is equal to 1,000, national saving is equal to 200, the current account deficit is equal to 100, and the government budget deficit is equal to 50. Private savings must equal 48) _____
    A) 250.   B) 150.   C) 300.   D) 350.   E) 200.

Answer: A

Explanation: A)
                B)
                C)
                D)
                E)

For the following question(s), suppose an economy produces only pens and pencils, and that the quantity and price data is giv
this table:

	Pens	Pencils
Year 1 quantity	15	10
Year 1 price	$12	$12
Year 2 quantity	17	12
Year 2 price	$14	$15

49) What is the real GDP in year 2 using base year 1?   49) _____

    A) $300   B) $418   C) $294   D) $338   E) $360

Answer: D

Explanation: A)
                  B)
                  C)
                  D)
                  E)

50) An example of a stock would be   50) _____

    A) investment.
    B) real GDP.
    C) government spending.
    D) the amount of money in circulation.
    E) savings.

Answer: D

Explanation: A)
                  B)
                  C)
                  D)
                  E)

51) The components of investment expenditures include   51) _____

    A) investment in health care.
    B) investment in stocks and bonds.
    C) investment in consumer's education.
    D) investment in plant and equipment abroad.
    E) residential investment.

Answer: E

Explanation: A)
                  B)
                  C)
                  D)
                  E)

52) Jim's Nursery produces and sells $1,100 worth of flowers. Jim uses no intermediate inputs. He   52) _____
pays his workers $700 in wages, pays $100 in taxes and pays $200 in interest on a loan. Jim's profit
is

   A) $400.   B) $100.   C) $1,000.   D) $200.   E) $800.

Answer: B

Explanation: A)
                B)
                C)
                D)
                E)

53) When an unemployed worker becomes discouraged and leaves the labour force   53) _____
       A) the employment/population ratio decreases.
       B) the employment/population ratio increases.
       C) the unemployment rate increases.
       D) the unemployment rate decreases.
       E) the labour force participation rate increases.

Answer: D

Explanation: A)
                B)
                C)
                D)
                E)

54) Additions to inventory is   54) _____
       A) counted as an intermediate input.
       B) considered national savings.
       C) not counted as an expenditure in GDP accounting.
       D) counted as a component of investment spending.
       E) subtracted from sales revenue in calculating profit income.

Answer: D

Explanation: A)
                B)
                C)
                D)
                E)

55) the three approaches to measuring GDP are called the   55) _____

     A) accounting approach, the statistical approach, and the product approach.

     B) product approach, the income approach, and the expenditure approach.

     C) product approach, the cost approach, and the expenditure approach.

     D) accounting approach, the income approach, and the expenditure approach.

     E) accounting approach, the statistical approach, and the income approach.

Answer: B

Explanation: A)
                    B)
                    C)
                    D)
                    E)

56) The product approach to calculating GDP values government production at   56) _____

     A) its intermediate costs.

     B) market prices.

     C) its estimated value to society.

     D) the total amount of taxes it collects.

     E) its cost of production.

Answer: E

Explanation: A)
                    B)
                    C)
                    D)
                    E)

57) The employment/population ratio equals   57) _____

     A) $\dfrac{\text{labour force}}{\text{unemployment}}$.

     B) $\dfrac{\text{employment}}{\text{total working age population}}$.

     C) $\dfrac{\text{employment}}{\text{employment - unemployment}}$.

     D) $\dfrac{\text{unemployment}}{\text{total working age population}}$.

     E) $\dfrac{\text{labour force}}{\text{total working age population}}$.

Answer: B

Explanation: A)
                    B)
                    C)
                    D)
                    E)

58) The participation rate equals

A) $\dfrac{\text{number unemployed}}{\text{total working age population}}$.

B) $\dfrac{\text{labour force}}{\text{total working age population}}$.

C) $\dfrac{\text{number unemployed}}{\text{labour force}}$.

D) $\dfrac{\text{labour force}}{\text{number unemployed}}$.

E) $\dfrac{\text{number employed}}{\text{total working age population}}$.

Answer: B

Explanation: A)
B)
C)
D)
E)

For the following question(s), suppose an economy produces only pens and pencils, and that the quantity and price data is giv this table:

	Pens	Pencils
Year 1 quantity	15	10
Year 1 price	$12	$12
Year 2 quantity	17	12
Year 2 price	$14	$15

59) What is approximately the growth rate of real GDP using base year 1?

A) 25%   B) 39%   C) 13%   D) 20%   E) 33%

Answer: C

Explanation: A)
B)
C)
D)
E)

58)

59)

60) When we try to measure real GDP and the price level, if we underestimate the growth in real GDP, we will   60) _____

    A) sometimes underestimate the rate of inflation.

    B) always overestimate the rate of inflation.

    C) not be able to measure the rate of inflation.

    D) sometimes overestimate the rate of inflation.

    E) always underestimate the rate of inflation.

Answer: B

Explanation: A)

                    B)

                    C)

                    D)

                    E)

61) The expenditure approach to calculating GDP includes   61) _____

    A) all forms of taxation.

    B) investment.

    C) corporate profits.

    D) wage income.

    E) the sum of government spending on goods and services, transfer payments, and interest on the national debt.

Answer: B

Explanation: A)

                    B)

                    C)

                    D)

                    E)

For the following question(s), suppose an economy produces only pens and pencils, and that the quantity and price data is giv this table:

	Pens	Pencils
Year 1 quantity	15	10
Year 1 price	$12	$12
Year 2 quantity	17	12
Year 2 price	$14	$15

62) What is the inflation rate using base year 1?   62) _____

    A) 25%   B) 15%   C) 13%   D) 10%   E) 20%

Answer: E

Explanation: A)

                    B)

                    C)

                    D)

                    E)

63) Changes in the relative prices of goods causes problems measuring real GDP because   63) _____
    A) they tend to be inaccurate.
    B) firms produce more of the cheaper good.
    C) consumers buy less of the cheaper good.
    D) consumers change their buying habits.
    E) price deflators only measure the price level.

Answer: D
Explanation: A)
                B)
                C)
                D)
                E)

64) The unemployment rate equals   64) _____
    A) $\dfrac{\text{labour force}}{\text{number unemployed}}$.

    B) $\dfrac{\text{number unemployed}}{\text{number employed - number unemployed}}$.

    C) $\dfrac{\text{number unemployed}}{\text{labour force}}$.

    D) $\dfrac{\text{labour force}}{\text{total working age population}}$.

    E) $\dfrac{\text{number unemployed}}{\text{total working age population}}$.

Answer: C
Explanation: A)
                B)
                C)
                D)
                E)

65) To calculate the change in chain-weighted real GDP from one year to the next, we use   65) _____
    A) first-year prices.
    B) base-year prices.
    C) second-year prices.
    D) the percentage change in prices from the first year to the second.
    E) average prices over the two years.

Answer: E
Explanation: A)
                B)
                C)
                D)
                E)

66) The components of consumption expenditures include 66) _____

    A) investment in stocks and bonds.

    B) nondurable goods consumption.

    C) purchases of used cars and books.

    D) donations.

    E) government consumption.

Answer: B

Explanation: A)

                B)

                C)

                D)

                E)

67) Government expenditures includes 67) _____

    A) inventory investment.

    B) consumer spending.

    C) residential spending.

    D) financial investment.

    E) federal defense spending.

Answer: E

Explanation: A)

                B)

                C)

                D)

                E)

68) The expenditure approach is calculated as 68) _____

    A) $C + I + X$.

    B) $C + I + G$.

    C) $C + I + NX$.

    D) $C + I + G + NX$.

    E) the value approach.

Answer: D

Explanation: A)

                B)

                C)

                D)

                E)

69) Intermediate goods are

    A) not a consumption good.

    B) purchased by consumers.

    C) goods that are produced and used as inputs into the production process.

    D) sold to foreigners.

    E) irrelevant in the overall economy.

Answer: C

Explanation: A)

    B)

    C)

    D)

    E)

70) In 2017, consumption comprised approximately

    A) 58% of GDP.

    B) 80% of GDP.

    C) 40% of GDP.

    D) 15% of GDP.

    E) 28% of GDP.

Answer: A

Explanation: A)

    B)

    C)

    D)

    E)

71) Problems with interpreting the unemployment rate as a measure of labour market tightness include

    A) discouraged workers and variations in how intensively the unemployed search for work.

    B) the rental vacancy rate.

    C) biases in the CPI and dissatisfied workers.

    D) variations in how intensively the unemployed search for work and biases in the CPI.

    E) dissatisfied workers and discouraged workers.

Answer: A

Explanation: A)

    B)

    C)

    D)

    E)

For the following question(s), suppose that an economy produces only bread and computers. Assume that all production is consumed in each year, and that price and quantity data are given in the table below.

Year 1

Good	Quantity	Price
Bread	30	$10
Computers	10	$50

Year 2

Good	Quantity	Price
Bread	40	$15
Computers	30	$60

72) If Year 1 is the base year, the GDP price deflator for Year 2 is approximately   72) _____

  A) 181.0.   B) 131.3.   C) 126.3.   D) 211.0.   E) 100.0.

Answer: C

Explanation: A)

                 B)

                 C)

                 D)

                 E)

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

73) List and discuss two reasons why national income accountants could make errors in measuring GDP.

Answer: GDP could be mismeasured because of the existence of the underground economy, and because there are no market prices for the government's contribution to GDP. The NIEA measures only market activity, so if there are illegal transactions involving drugs and prostitution, for example, these will go unrecorded, as will cash transactions and barter transactions designed to avoid taxation. All of this illegal activity falls under the umbrella of "underground" activities. As well, when the government produces goods and services, what is recorded in GDP are the wages and salaries paid to employees. But this could overvalue some government goods and services, and undervalue some others.

1) D
2) A
3) B
4) A
5) C
6) A
7) A
8) A
9) D
10) D
11) A
12) B
13) B
14) A
15) D
16) A
17) D
18) C
19) E
20) D
21) E
22) A
23) B
24) E
25) B
26) A
27) C
28) C
29) A
30) A
31) E
32) B
33) D
34) E
35) A
36) E
37) A
38) A
39) A
40) B
41) D
42) B

43) D
44) B
45) A
46) E
47) C
48) A
49) D
50) D
51) E
52) B
53) D
54) D
55) B
56) E
57) B
58) B
59) C
60) B
61) B
62) E
63) D
64) C
65) E
66) B
67) E
68) D
69) C
70) A
71) A
72) C
73) GDP could be mismeasured because of the existence of the underground economy, and because there are no market prices for the government's contribution to GDP. The NIEA measures only market activity, so if there are illegal transactions involving drugs and prostitution, for example, these will go unrecorded, as will cash transactions and barter transactions designed to avoid taxation. All of this illegal activity falls under the umbrella of "underground" activities. As well, when the government produces goods and services, what is recorded in GDP are the wages and salaries paid to employees. But this could overvalue some government goods and services, and undervalue some others.