

Varsity Economics – Measurement: Output and Income

- 1 Which of the following is a primary use for national income accounts?**
 - A to analyze the environmental cost of economic growth
 - B to assess the economic efficiency of specific industries in the economy
 - C to measure changes in the value of production and income in the economy
 - D to determine whether there is a fair and equitable distribution of income in the economy
- 2 The National Income and Product Accounts (NIPA) for the U.S. are compiled by the**
 - A National Bureau of Economic Research.
 - B Bureau of Economic Analysis.
 - C National Census Bureau.
 - D Council of Economic Advisers.
- 3 GDP is the market value of**
 - A resources (land, labor, capital, and entrepreneurship) in an economy in a given year.
 - B all final goods and services produced in an economy in a given year.
 - C consumption and investment spending in an economy in a given year.
 - D all output produced and accumulated over the years.
- 4 The gross domestic product (GDP) concept accounts for society's valuation of the relative worth of goods and services by using a**
 - A measure of physical weight.
 - B measure of volume.
 - C utility measure.
 - D monetary measure.
- 5 To avoid multiple counting in national income accounts**
 - A only final goods and services should be counted.
 - B intermediate goods and services should be counted.
 - C both final and intermediate goods and services should be counted.
 - D primary, intermediate, and final goods and services should be counted.
- 6 Adding the market value of all final and intermediate goods and services in an economy in a given year would result in**
 - A the calculation of GDP for that year.
 - B the calculation of NDP for that year.
 - C an amount less than GDP for that year.
 - D an amount greater than GDP for that year.

- 7 An example of final goods in national income accounts would be**
 - A new lawn mowers purchased by Cut-Rite Lawn Equipment & Supplies.
 - B flowers and pots purchased by homeowner Joe Smith.
 - C chemicals purchased by Green Grass Lawn Care Services.
 - D seedlings and saplings purchased for resale by Wendy's Garden Center.
- 8 Which one of the following is not an example of final goods in national income accounting?**
 - A lumber and steel beams purchased by a construction company
 - B tractor purchased by a construction company
 - C laptop computer purchased by an executive for personal use
 - D desktop computer purchased by an executive for business use
- 9 An example of intermediate goods would be**
 - A bricks bought by a homeowner for constructing a patio.
 - B sacks of groceries bought by a dentist for his family.
 - C cars bought by a car-rental company.
 - D paper and ink bought by a publishing company.
- 10 Which of the following is not an example of intermediate goods?**
 - A flour bought by a bakery
 - B oven bought by a bakery
 - C office supplies bought by an accounting firm
 - D gasoline bought by a trucking company
- 11 The total volume of business sales in our economy is several times larger than GDP because**
 - A the GDP does not take taxes into account.
 - B the GDP excludes intermediate transactions.
 - C the GDP grossly understates the value of our annual output.
 - D total sales are in money terms and GDP is always stated in real terms.
- 12 Value added by a firm is the market value of the firm's output minus the**
 - A total wages paid to its employees.
 - B value of inputs bought from other firms.
 - C profits that the firm's owners earn.
 - D total costs of all inputs used.

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- 13 A business buys \$5,000 worth of inputs from other firms in order to produce a product. The business makes 100 units of the product and each of them sells for \$65. The value added by the business to these products is
- A \$5,000.
 - B \$6,500.
 - C \$1,500.
 - D \$1,000.
- 14 Firm A produces something that Firm B uses as an input. The product of Firm B, in turn, is purchased and used as an input by Firm C, and so on down the line through Firm E, which produces the end product.

Stage of Production	Sales Value of Materials or Products
Firm A	\$ 800
Firm B	1,250
Firm C	1,850
Firm D	2,600
Firm E	3,800

The total value added by Firms A-E from the production of the end product described here is

- A \$3,000.
- B \$3,800.
- C \$6,500.
- D \$10,300.

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- 15 Subtracting the purchase of intermediate products and supplies from the value of the sales of final products determines the amount of
- A net investment for a business.
 - B profit and cost.
 - C value added from the economic activity.
 - D surplus or deficit from the economic activity.
- 16 Consider the following data for a firm over a period of time.

Total Revenue		\$50,000
Total Cost		45,000
Supplies	\$10,000	
Wages and Salaries	35,000	
Profit		5,000

The contribution of the firm to domestic output by the value-added method is

- A \$5,000.
 - B \$40,000.
 - C \$45,000.
 - D \$50,000.
- 17 Which of the following is a private transfer payment?
- A unemployment benefits received by newly laid-off workers
 - B the sale of used clothing at a thrift store
 - C the Social Security benefits paid to a retired worker
 - D a check for \$250 sent by a parent to a daughter at college
- 18 Which of the following is included in GDP?
- A welfare payments received by some households
 - B fees received by stockbrokers
 - C cash gifts from relatives during the holidays
 - D payments received from selling stocks in one's portfolio
- 19 The sale of a used automobile would not be included in GDP of the current year because it is a
- A nonmarket transaction.
 - B nonproduction transaction.
 - C purely financial transaction.
 - D private transfer payment.

- 20 The value of corporate stocks and bonds traded in a given year is**
- A included in the calculation of GDP because they make a contribution to the current production of goods and services.
 - B excluded from the calculation of GDP because they make no contribution to current production of goods and services.
 - C included in the calculation of net private domestic investment.
 - D included in the calculation of gross private domestic investment.
- 21 The largest expenditure component of GDP is**
- A government purchases.
 - B personal consumption expenditures.
 - C gross private domestic investment.
 - D net exports.
- 22 Which of the following is not included in personal consumption expenditures?**
- A new furniture and appliances bought by homeowners
 - B payments for cable and Internet services to homes
 - C purchases of mutual funds by consumers
 - D food purchased at supermarkets
- 23 Government purchases in national income accounts would include payments for**
- A Social Security checks to retirees.
 - B salaries for current U.S. military officers.
 - C public assistance for welfare recipients.
 - D unemployment benefits.
- 24 A distinguishing characteristic of public transfer payments is that they**
- A include wages to government workers.
 - B are counted as part of government purchases in the calculation of the gross domestic product.
 - C include the cost of maintaining public parks.
 - D involve no contribution to current production in return.
- 25 When local police and fire departments buy new cars for their operations, these are counted as part of**
- A consumption
 - B investment
 - C government expenditures
 - D net exports

- 26 Government purchases include government spending on**
- A government consumption goods and public capital goods.
 - B government consumption goods only.
 - C public capital goods only.
 - D government consumption goods, public capital goods, and transfer payments.
- 27 Computation of GDP by the expenditures method would include the purchase of**
- A fertilizer by a farmer.
 - B cement by a construction company.
 - C land by the U.S. Department of Interior.
 - D government bonds by a commercial bank.
- 28 The following are national income account data for a hypothetical economy in billions of dollars: government purchases (\$1,050), personal consumption expenditures (\$4,800), imports (\$370), exports (\$240), and gross private domestic investment (\$1,130). Personal consumption expenditures are approximately what percentage of this economy?**
- A 60%
 - B 65%
 - C 70%
 - D 75%
- 29 In national income accounting, the consumption category of expenditures includes purchases of**
- A both new and used consumer goods.
 - B automobiles for personal use but not houses.
 - C consumer durable and nondurable goods but not services.
 - D consumer nondurable goods and services but not consumer durable goods.
- 30 In national income accounting, the consumption category of expenditures includes purchases of**
- A both new and used consumer goods.
 - B consumer durable goods and consumer nondurable goods but not services.
 - C consumer durable goods, consumer nondurable goods, and services.
 - D changes in business inventories.

- 31 In calculating GDP, governmental transfer payments, such as Social Security or unemployment compensation, are**
- A not counted.
 - B counted as investment spending.
 - C counted as government spending.
 - D counted as consumption spending.
- 32 In national income accounting, government purchases include**
- A purchases by federal, state, and local governments.
 - B purchases by the federal government only.
 - C government transfer payments.
 - D purchases of goods for consumption but not public capital goods.
- 33 Transfer payments are**
- A excluded when calculating GDP because they only reflect inflation.
 - B excluded when calculating GDP because they do not reflect current production.
 - C included when calculating GDP because they are a category of investment spending.
 - D included when calculating GDP because they increase the spending of recipients.
- 34 Money spent on the purchase of a new house is included in the GDP as a part of**
- A household expenditures on durable goods.
 - B personal consumption expenditures.
 - C personal saving.
 - D gross domestic private investment.
- 35 Which would be considered an investment according to economists?**
- A A fishing-company owner buys Google shares.
 - B A fishing-company buys a few boats from another fishing company that was closing out.
 - C A fishing-company owner buys new fishing gear.
 - D A fishing-company owner buys fuel to run the boats.
- 36 Which of the following is not included in gross domestic private investment, as defined in national income accounts?**
- A changes to business inventories
 - B all domestic construction done by the private sector
 - C government construction of new highways and dams
 - D the value of all capital goods bought by business firms

- 37 Business inventories increase when firms produce**
- A more than they sell, and the inventory increase is added to GDP.
 - B less than they sell, and the inventory increase is added to GDP.
 - C more than they sell, and the inventory increase is subtracted from GDP.
 - D less than they sell, and the inventory increase is subtracted from GDP.
- 38 In November 2009, Econland Motors produced an automobile that was delivered to a local dealership in December 2009. The auto was then sold to Sharon Smith for personal use in February of 2010. Following national income accounting practices, this auto would be counted as part of**
- A consumption in 2009 and consumption in 2010.
 - B consumption in 2009 and investment in 2010.
 - C negative investment in 2009 and consumption in 2010.
 - D investment in 2009 and negative investment in 2010.
- 39 In an economy, the value of inventories was \$75 billion in 2009 and \$63 billion in 2010. In calculating total investment for 2010, national income accountants would**
- A decrease it by \$75 billion.
 - B increase it by \$63 billion.
 - C decrease it by \$12 billion.
 - D increase it by \$138 billion.
- 40 Which of the following is not economic investment?**
- A The purchase of a new drill press by the Ajax Manufacturing Company.
 - B The purchase of 100 shares of AT&T by a retired business executive.
 - C Construction of a suburban housing project.
 - D The piling up of inventories on a grocer's shelf.
- 41 Which of the following do national income accountants consider to be investment?**
- A The purchase of an automobile for private, nonbusiness use.
 - B The purchase of a new house.
 - C The purchase of corporate bonds.
 - D The purchase of gold coins.
- 42 National income accountants define investment to include**
- A any increase in business inventories.
 - B the addition of cash to a savings account.
 - C the purchase of common or preferred stock.
 - D the purchase of any durable good, for example, an automobile or a refrigerator.

- 43 Suppose that inventories were \$40 billion in 2012 and \$50 billion in 2013. In 2013, national income accountants would**
- A add \$10 billion to other elements of investment in calculating total investment.
 - B subtract \$10 billion from other elements of investment in calculating total investment.
 - C add \$45 billion ($= \$90/2$) to other elements of investment in calculating total investment.
 - D subtract \$45 billion ($= \$90/2$) from other elements of investment in calculating total investment.
- 44 Suppose that inventories were \$80 billion in 2012 and \$70 billion in 2013. In 2013, national income accountants would**
- A add \$10 billion to other elements of investment in calculating total investment.
 - B subtract \$10 billion from other elements of investment in calculating total investment.
 - C add \$75 billion ($= \$150/2$) to other elements of investment in calculating total investment.
 - D subtract \$75 billion ($= \$150/2$) from other elements of investment in calculating total investment.
- 45 When gross investment is positive, net investment**
- A is always zero.
 - B must be negative.
 - C must be positive.
 - D may be either positive or negative.
- 46 When gross private domestic investment exceeds depreciation, it can be concluded that**
- A net investment is positive.
 - B net investment is negative.
 - C the economy is exporting more than it imports.
 - D the economy is importing more than it exports.
- 47 A nation's capital stock was valued at \$500 billion at the start of the year and \$575 billion at the end. Consumption of private fixed capital in the year was \$35 billion. Assuming stable prices, net investment was**
- A \$35 billion.
 - B \$40 billion.
 - C \$45 billion.
 - D \$75 billion.

- 48 A nation's capital stock was valued at \$300 billion at the start of the year and \$350 billion at the end. Consumption of private fixed capital in the year was \$25 billion. Assuming stable prices, gross investment was**
- A \$25 billion.
 - B \$50 billion.
 - C \$75 billion.
 - D \$90 billion.
- 49 The consumption of fixed capital in each year's production is called**
- A indirect business taxes.
 - B inventory reduction.
 - C depreciation.
 - D net investment.
- 50 In an economy that is experiencing a shrinking production capacity**
- A gross domestic investment is negative.
 - B net private domestic investment is zero.
 - C depreciation is negative.
 - D depreciation exceeds gross investment.
- 51 In an economy that has stationary production capacity**
- A GDP is zero.
 - B capital consumption (or depreciation) is zero.
 - C net investment is zero.
 - D gross investment is zero.
- 52 Disinvestment occurs when**
- A businesses sell machinery and equipment to one another.
 - B the prices of investment goods rise faster than the prices of consumer goods.
 - C businesses have larger inventories at the end of the year than they had at the start.
 - D the consumption of private fixed capital exceeds gross private domestic investment.
- 53 The concept of net domestic investment refers to**
- A the amount of machinery and equipment used up in producing the GDP in a specific year.
 - B the difference between the market value and book value of outstanding capital stock.
 - C gross domestic investment less net exports.
 - D total investment less the amount of investment goods used up in producing the year's output.

- 54 If depreciation (consumption of fixed capital) exceeds gross domestic investment, we can conclude that**
- A nominal GDP is rising but real GDP is declining.
 - B net investment is negative.
 - C the economy is importing more than it exports.
 - D the economy's production capacity is expanding.
- 55 In 1933, net private domestic investment was a minus \$6.0 billion. This means that**
- A gross private domestic investment exceeded depreciation by \$6.0 billion.
 - B the economy was expanding in that year.
 - C the production of 1933's GDP used up more capital goods than were produced in that year.
 - D the economy produced no capital goods at all in 1933.
- 56 If in some year gross investment was \$120 billion and net investment was \$65 billion, then in that year the country's capital stock**
- A may have either increased or decreased.
 - B increased by \$65 billion.
 - C increased by \$55 billion.
 - D decreased by \$55 billion.
- 57 Consumption of fixed capital (depreciation) can be determined by**
- A adding taxes on production and imports to NDP.
 - B subtracting NDP from GDP.
 - C subtracting net investment from GDP.
 - D adding net investment to gross investment.
- 58 Net exports is a positive number when a**
- A nation's exports of goods and services are increasing.
 - B nation exports goods and services to other nations.
 - C nation's exports of goods and services exceed its imports.
 - D nation's exports of goods and services fall short of its imports.
- 59 GDP in an economy is \$11,050 billion. Consumer expenditures are \$7,735 billion, government purchases are \$1,989 billion, and gross investment is \$1,410 billion. Net exports must be**
- A + \$53 billion.
 - B - \$47 billion.
 - C - \$84 billion.
 - D - \$161 billion.

- 60 Use the following data to answer the next question. The following data about a hypothetical economy are in billions of dollars.**

Personal consumption expenditures	\$4,500
Consumption of fixed capital	150
Gross private domestic investment	800
Government purchases	950
Exports	65
Imports	85

How much are net exports of this economy?

- A +\$150 billion
- B -\$20 billion
- C +\$20 billion
- D -\$65 billion

- 61 Use the following data to answer the next question. The following data about a hypothetical economy are in billions of dollars.

Disposable income	\$200
Net private domestic investment	40
U.S. imports	15
National income	300
Personal taxes	31
Net exports	9
Gross private domestic investment	55
Net foreign factor income	10
Statistical discrepancy	0

This nation's exports are

- A \$9 billion.
 - B \$16 billion.
 - C \$24 billion.
 - D \$28 billion.
- 62 Net exports are
- A that portion of consumption and investment goods sent to other countries.
 - B exports plus imports.
 - C exports less imports.
 - D imports less exports.

- 63 Net exports are negative when
- A a nation's imports exceed its exports.
 - B the economy's stock of capital goods is declining.
 - C depreciation exceeds domestic investment.
 - D a nation's exports exceed its imports.
- 64 The smallest component of aggregate spending in the United States is
- A net exports.
 - B government purchases.
 - C investment.
 - D consumption.
- 65 The value of U.S. imports is
- A added to exports when calculating GDP because imports reflect spending by Americans.
 - B subtracted from exports when calculating GDP because imports do not constitute spending by Americans.
 - C subtracted from exports when calculating GDP because imports do not constitute production in the United States.
 - D added when calculating GDP because imports do not constitute production in the United States.
- 66 In the treatment of U.S. exports and imports, national income accountants
- A subtract exports but add imports in calculating GDP.
 - B subtract both exports and imports in calculating GDP.
 - C add both exports and imports in calculating GDP.
 - D add exports but subtract imports in calculating GDP.
- 67 Which of the following is included in the expenditures approach to GDP?
- A spending on meals by consumers at restaurants
 - B expenditures on used clothing at garage sales
 - C value of stocks and bonds bought by businessmen
 - D government spending on welfare payments
- 68 Which of the following is not a component of GDP in the expenditures approach?
- A government purchases
 - B workers' wages and other compensation
 - C gross private domestic investment
 - D the difference between exports and imports

69 In the expenditures approach of national income accounting, C, I, and G include expenditures for

- A domestically produced goods and services only.
- B domestically produced as well as imported goods and services.
- C exported goods and services.
- D the private sector of the economy only.

70 The following are national income account data for a hypothetical economy in billions of dollars: gross private domestic investment (\$320), imports (\$35), exports (\$22), personal consumption expenditures (\$2,460), and government purchases (\$470). What is GDP in this economy?

- A \$3,250 billion
- B \$3,263 billion
- C \$3,237 billion
- D \$3,290 billion

71 The expenditures or output approach to GDP measures it by summing up

- A compensation of employees, rents, interest, dividends, undistributed corporate profits, proprietors' income, indirect business taxes paid, consumption of fixed capital, and net foreign factor income earned in the United States.
- B compensation of employees, rents, interest, dividends, corporate profits, proprietors' income, and indirect business taxes and subtracting the consumption of fixed capital.
- C the total spending for consumption, investment, net exports, and government purchases.
- D the total spending for consumption and government purchases but subtracting public and private transfer payments.

72 Use the following data to answer the next question. The following national income data are in billions of dollars.

Personal consumption expenditures	\$4,500
Consumption of fixed capital	150
Gross private domestic investment	800
Government purchases	950
Exports	65
Imports	85

GDP in this economy is

- A \$6,080 billion.
- B \$6,230 billion.
- C \$6,380 billion.
- D \$6,400 billion.

73 Use the following data to answer the next question. The following national income data are in billions of dollars.

Disposable income	\$200
Net private domestic investment	40
U.S. imports	15
National income	300
Personal taxes	31
Net exports	9
Gross private domestic investment	55
Net foreign factor income	10
Statistical discrepancy	0

This nation's GDP is

- A \$315 billion.
- B \$324 billion.
- C \$305 billion.
- D \$367 billion.

74 Use the following data to answer the next question. The following national income data are in billions of dollars.

1	Consumption of fixed capital	\$438
2	Taxes on production and imports	326
3	Compensation of employees	2,347
4	Rents	14
5	Interest	287
6	Proprietors' income	242
7	Corporate profits	297
8	Personal consumption expenditures	2,582
9	Gross private domestic investment	669
10	Government purchases	815
11	Net exports	-78
12	Net foreign factor income	46
13	Statistical discrepancy	50

The expenditures approach to GDP calculation can be done by adding

- A 1 through 7.
- B 2 through 7.
- C 8 through 11.
- D 8 through 13.

75 GDP can be calculated by summing

- A consumption, investment, government purchases, exports, and imports.
- B consumption, investment, government purchases, and net exports.
- C consumption, investment, wages, and rents.
- D consumption, investment, government purchases, and imports.

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76 Answer the next question on the basis of the following data. All figures are in billions of dollars.

Government purchases	\$15
Consumption	90
Gross investment	20
Consumption of fixed capital	5
Exports	8
Imports	12

GDP is

- A \$116.
- B \$121.
- C \$125.
- D \$150.

77 Answer the next question on the basis of the following data. All figures are in billions of dollars.

Government purchases	\$15
Consumption	90
Gross investment	20
Consumption of fixed capital	5
Exports	8
Imports	12

NDP (net domestic product) is

- A \$116.
- B \$121.
- C \$125.
- D \$150.

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78 Answer the next question on the basis of the following data. All figures are in billions.

Personal taxes	\$ 40
Social security contributions	15
Taxes on production and imports	20
Corporate income taxes	40
Transfer payments	22
U.S. exports	24
Undistributed corporate profits	35
Government purchases	90
Gross private domestic investment	75
U.S. imports	22
Personal consumption expenditures	250
Consumption of fixed capital	25
Net foreign factor income	10
Statistical discrepancy	0

GDP is

- A \$390.
- B \$417.
- C \$422.
- D \$492.

79 Answer the next question on the basis of the following data. All figures are in billions of dollars.

Personal taxes	\$ 40
Social security contributions	15
Taxes on production and imports	20
Corporate income taxes	40
Transfer payments	22
U.S. exports	24
Undistributed corporate profits	35
Government purchases	90
Gross private domestic investment	75
U.S. imports	22
Personal consumption expenditures	250
Consumption of fixed capital	25
Net foreign factor income	10
Statistical discrepancy	0

NDP is

- A \$370.
- B \$402.
- C \$392.
- D \$467.

- 80 Answer the next question on the basis of the following data. All figures are in billions of dollars.

Gross investment	\$ 18
National income	100
Net exports	2
Personal income	85
Personal consumption expenditures	70
Saving	5
Government purchases	20
Net domestic product	105
Statistical discrepancy	0

The gross domestic product for the above economy is

- A \$100.
 B \$95.
 C \$110.
 D \$107.
- 81 Answer the next question on the basis of the following data. All figures are in billions of dollars.

Gross investment	\$ 18
National income	100
Net exports	2
Personal income	85
Personal consumption expenditures	70
Saving	5
Government purchases	20
Net domestic product	105
Statistical discrepancy	0

Consumption of fixed capital is

- A \$5.
 B \$10.
 C \$20.
 D \$30.

- 82 Answer the next question on the basis of the following national income data for the economy. All figures are in billions of dollars.

Personal consumption expenditures	\$400
Government purchases	128
Gross private domestic investment	88
Net exports	7
Net foreign factor income	0
Consumption of fixed capital	43
Taxes on production and imports	50
Compensation of employees	369
Rents	12
Interest	15
Proprietors' income	52
Corporate income taxes	36
Dividends	24
Undistributed corporate profits	22
Statistical discrepancy	0

The gross domestic product for the above economy is

- A \$584.
 B \$592.
 C \$609.
 D \$623.
- 83 The two ways of looking at GDP are the
- A output approach and expenditures approach.
 B income approach and saving approach.
 C expenditures approach and income approach.
 D output approach and consumption approach.
- 84 National income is the sum of employee compensation, profits, and the following items, except
- A rent.
 B interest.
 C depreciation or consumption of fixed capital.
 D taxes on production and imports.
- 85 "Corporate profits" in the national income accounts consist of the following, except
- A retained earnings.
 B interest.
 C dividends.
 D corporate income taxes.

86 "Net foreign factor income" in the national income accounts refers to the difference between the

- A income Americans gain from supplying resources abroad and the income that foreigners earn by supplying resources in the U.S.
- B value of products sold by Americans to other nations and the value of products bought by Americans from other nations.
- C value of investments that Americans made abroad and the value of investments made by foreigners in the U.S.
- D income earned by Americans in the U.S. minus the income earned by foreigners in the U.S.

87 The "statistical discrepancy" that the NIPA includes in the data is to account for the following, except

- A equalization of GDP totals produced by the expenditures approach and the income approach.
- B errors due to people misrepresenting their incomes on their tax returns.
- C difficulty in accurately estimating depreciation.
- D household production, or "do-it-yourself" activities of households

88 Use the following table to answer the next question. The following national income data for an economy are in billions of dollars.

1	Consumption of fixed capital	\$ 438
2	Taxes on production and imports	326
3	Compensation of employees	2,347
4	Rents	14
5	Interest	287
6	Proprietors' income	242
7	Corporate profits	297
8	Personal consumption expenditures	2,582
9	Gross private domestic investment	669
10	Government purchases	815
11	Net exports	-78
12	Net foreign factor income	46
13	Statistical discrepancy	50

The national income in this economy can be estimated by adding items

- A 1 through 7.
- B 8 through 11.
- C 2 through 7.
- D 1 through 13.

- 89 Use the following table to answer the next question. The following national income data for an economy are in billions of dollars.

1	Consumption of fixed capital	\$ 438
2	Taxes on production and imports	326
3	Compensation of employees	2,347
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13	Statistical discrepancy	50

Which items need to be accounted for in going from National Income to GDP?

- A 1, 12, and 13
- B 2, 11, and 12
- C 13 only
- D 1 and 2

- 90 Use the following table to answer the next question. The following national income data for an economy are in billions of dollars.

Consumption of fixed capital	\$ 25
Government purchases	315
U.S. imports	260
Personal taxes	45
Transfer payments	247
U.S. exports	249
Personal consumption expenditures	475
Net foreign factor income	5
Gross private domestic investment	300
Taxes on production and imports	245
Undistributed corporate profits	60
Social security contributions	240
Corporate income taxes	65
Statistical discrepancy	40

National income in this economy is

- A \$804 billion.
- B \$940 billion.
- C \$975 billion.
- D \$1,019 billion.

- 91 Use the following table to answer the next question. The following national income data for an economy are in billions of dollars.

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Personal taxes	45
Transfer payments	247
U.S. exports	249
Personal consumption expenditures	475
Net foreign factor income	5
Gross private domestic investment	300
Taxes on production and imports	245
Undistributed corporate profits	60
Social security contributions	240
Corporate income taxes	65
Statistical discrepancy	40

Personal income in this economy is

- A \$621 billion.
- B \$656 billion.
- C \$705 billion.
- D \$716 billion.

- 92 Use the following table to answer the next question. The following national income data for an economy are in billions of dollars.

Consumption of fixed capital	\$ 25
Government purchases	315
U.S. imports	260
Personal taxes	45
Transfer payments	247
U.S. exports	249
Personal consumption expenditures	475
Net foreign factor income	5
Gross private domestic investment	300
Taxes on production and imports	245
Undistributed corporate profits	60
Social security contributions	240
Corporate income taxes	65
Statistical discrepancy	40

Disposable income in this economy is

- A \$611 billion.
- B \$659 billion.
- C \$667 billion.
- D \$686 billion.

VE 05b. Measurement: Output and Income

- 93 Use the following table to answer the next question. The following national income data for an economy are in billions of dollars.

Gross private domestic investment	\$1,593
Personal taxes	1,113
Transfer payments	1,683
Taxes on production and imports	695
Corporate income taxes	213
Personal consumption expenditures	7,304
Consumption of fixed capital	1,393
U.S. exports	1,059
Dividends	434
Government purchases	1,973
Net foreign factor income	10
Undistributed corporate profits	141
Social security contributions	748
U.S. imports	1,483
Statistical discrepancy	50

Corporate profits are equal to

- A \$442 billion.
 - B \$532 billion.
 - C \$621 billion.
 - D \$788 billion.
- 94 Which of the following represents an income flow in the circular flow of domestic output and national income?
- A net exports
 - B investment expenditures
 - C government purchases
 - D corporate profits
- 95 Personal income will equal disposable income when
- A corporate profits are zero.
 - B personal taxes are zero.
 - C transfer payments are zero.
 - D Social Security contributions are zero.

VE 05b. Measurement: Output and Income

- 96 The total income earned through the use of resources, plus taxes on production and on imports, equals
- A national income.
 - B gross domestic product.
 - C personal income.
 - D disposable income.
- 97 The amount of new output produced per year for both consumption and additions to capital stock is measured by
- A GDP.
 - B net investment.
 - C NDP.
 - D net exports.

98 Use the following table to answer the next question. The following national income data for an economy are in billions of dollars.

Net foreign factor income	\$ 8
Corporate profits	47
Gross private domestic investment	73
Proprietors' income	46
Dividends	13
Consumption of fixed capital	41
Social security contributions	10
U.S. exports	23
Government purchases	97
Personal consumption expenditures	314
Transfer payments	27
Imports of the U.S.	24
Personal taxes	46
Corporate income taxes	23
Taxes on production and imports	50
Interest	16
Undistributed corporate profits	11
Statistical discrepancy	66

Gross domestic product in this economy is

- A \$400 billion.
- B \$442 billion.
- C \$483 billion.
- D \$517 billion.

99 Use the following table to answer the next question. The following national income data for an economy are in billions of dollars.

Net foreign factor income	\$ 8
Corporate profits	47
Gross private domestic investment	73
Proprietors' income	46
Dividends	13
Consumption of fixed capital	41
Social security contributions	10
U.S. exports	23
Government purchases	97
Personal consumption expenditures	314
Transfer payments	27
Imports of the U.S.	24
Personal taxes	46
Corporate income taxes	23
Taxes on production and imports	50
Interest	16
Undistributed corporate profits	11
Statistical discrepancy	66

Net domestic product is

- A \$400 billion.
- B \$442 billion.
- C \$483 billion.
- D \$517 billion.

- 100 Use the following table to answer the next question. The following national income data for an economy are in billions of dollars.

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Corporate profits	47
Gross private domestic investment	73
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Dividends	13
Consumption of fixed capital	41
Social security contributions	10
U.S. exports	23
Government purchases	97
Personal consumption expenditures	314
Transfer payments	27
Imports of the U.S.	24
Personal taxes	46
Corporate income taxes	23
Taxes on production and imports	50
Interest	16
Undistributed corporate profits	11
Statistical discrepancy	66

National income is

- A \$384 billion.
- B \$442 billion.
- C \$431 billion.
- D \$417 billion.

- 101 Use the following table to answer the next question. The following national income data for an economy are in billions of dollars.

Net foreign factor income	\$ 8
Corporate profits	47
Gross private domestic investment	73
Proprietors' income	46
Dividends	13
Consumption of fixed capital	41
Social security contributions	10
U.S. exports	23
Government purchases	97
Personal consumption expenditures	314
Transfer payments	27
Imports of the U.S.	24
Personal taxes	46
Corporate income taxes	23
Taxes on production and imports	50
Interest	16
Undistributed corporate profits	11
Statistical discrepancy	66

Personal income is

- A \$483 billion.
- B \$376 billion.
- C \$372 billion.
- D \$317 billion.

- 102 Use the following table to answer the next question. The following national income data for an economy are in billions of dollars.

Net foreign factor income	\$ 8
Corporate profits	47
Gross private domestic investment	73
Proprietors' income	46
Dividends	13
Consumption of fixed capital	41
Social security contributions	10
U.S. exports	23
Government purchases	97
Personal consumption expenditures	314
Transfer payments	27
Imports of the U.S.	24
Personal taxes	46
Corporate income taxes	23
Taxes on production and imports	50
Interest	16
Undistributed corporate profits	11
Statistical discrepancy	66

Disposable income is

- A \$383 billion.
- B \$372 billion.
- C \$271 billion.
- D \$212 billion.

- 103 GDP measured using current prices is called

- A nominal GDP.
- B real GDP.
- C constant GDP.
- D deflated GDP.

- 104 If prices increased, we need to adjust nominal GDP values to give us a measure of GDP for various years in constant-dollar terms. We refer to that adjustment as

- A inflating GDP.
- B deflating GDP.
- C compounding GDP.
- D indexing GDP.

- 105 Answer the next question based on the following price and output data over a five-year period for an economy that produces only one good. Assume that year 2 is the base year.

Year	Units of Output	Price per Unit
1	8	\$2
2	10	3
3	15	4
4	18	5
5	20	6

In year 4, nominal GDP would be

- A \$60.
- B \$90.
- C \$120.
- D \$316.

- 106 Answer the next question based on the following price and output data over a five-year period for an economy that produces only one good. Assume that year 2 is the base year.

Year	Units of Output	Price per Unit
1	8	\$2
2	10	3
3	15	4
4	18	5
5	20	6

If year 2 is the base year, then real GDP in year 5 is

- A \$120.
 B \$90.
 C \$60.
 D \$30.
- 107 Answer the next question based on the following price and output data over a five-year period for an economy that produces only one good. Assume that year 2 is the base year.

Year	Units of Output	Price per Unit
1	8	\$2
2	10	3
3	15	4
4	18	5
5	20	6

If year 2 is the base year, then the percentage increase in real GDP from year 2 to year 4 is

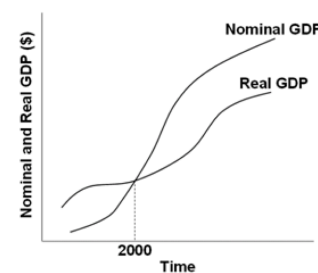
- A 40%.
 B 60%.
 C 80%.
 D 100%.

- 108 Answer the question below based on the following price and output data over a five-year period for an economy that produces only one good. Assume that year 2 is the base year.

Year	Units of Output	Price per Unit
1	8	\$2
2	10	3
3	15	4
4	18	5
5	20	6

For the years shown, the growth of

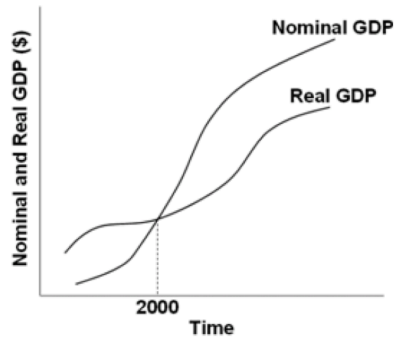
- A real GDP exceeds the growth of nominal GDP.
 B nominal GDP exactly reflects increases in real output.
 C nominal GDP overstates increases in real output.
 D nominal GDP understates increases in real output.
- 109 Nominal GDP differs from real GDP because
- A nominal GDP is based on constant prices.
 B real GDP is based on current prices.
 C real GDP results from adjusting for changes in the price level.
 D nominal GDP results from adjusting for changes in the price level.
- 110 Use the following graph to answer the next question.



The year 2000 must be the

- A year when depreciation or capital consumption equaled zero.
 B base year of the GDP price index.
 C point in time when GDP equaled 100.
 D year when the GDP price index is zero.

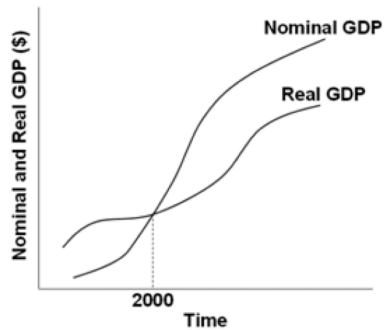
111 Use the following graph to answer the next question.



The graph suggests that the GDP price index during the period shown was generally

- A constant.
- B decreasing.
- C increasing.
- D positive.

112 Use the following graph to answer the next question.



Which of the following statements is correct on the basis of the information shown?

- A Real GDP must be deflated in each year after 2000 to determine nominal GDP.
- B Nominal GDP must be inflated in each year since 2000 to determine real GDP.
- C Nominal GDP must be deflated in each year before 2000 to determine real GDP.
- D Nominal GDP must be inflated in each year before 2000 to determine real GDP.

113 If real GDP declines in a given year, nominal GDP

- A must also be declining.
- B must also be increasing.
- C may either rise or fall.
- D is likely to remain constant.

114 Nominal GDP is

- A the sum of all monetary transactions that occur in the economy in a year.
- B the sum of all monetary transactions involving final goods and services that occur in the economy in a year.
- C the amount of production that occurs when the economy is operating at full employment.
- D money GDP adjusted for inflation.

115 Real GDP refers to

- A the value of the domestic output after adjustments have been made for environmental pollution and changes in the distribution of income.
- B GDP data that embody changes in the price level but not changes in physical output.
- C GDP data that do not reflect changes in both physical output and the price level.
- D GDP data that have been adjusted for changes in the price level.

116 Real GDP measures

- A current output at current prices.
- B current output at base year prices.
- C base year output at current prices.
- D base year output at current exchange rates.

117 Nominal GDP is adjusted for price changes through the use of

- A the Consumer Price Index (CPI).
- B the Producer Price Index (PPI).
- C the GDP price index.
- D exchange rates.

- 118 Answer the next question on the basis of the following information: Three goods are produced in an economy in the following amounts: A = 10, B = 30, C = 5. The current year per unit prices of these three goods are A = \$2, B = \$3, and C = \$1.

Nominal GDP in the current year is

- A \$110.
- B \$115.
- C \$45.
- D \$90.

- 119 Answer the next question on the basis of the following information: Three goods are produced in an economy in the following amounts: A = 10, B = 30, C = 5. The current year per unit prices of these three goods are A = \$2, B = \$3, and C = \$1. If the per unit prices of the three goods were each \$1 in a base year used to construct a GDP price index, then real GDP in the current year is

- A \$110.
- B \$115.
- C \$45.
- D \$160.

- 120 Use the following table to answer the next question. The base year is 2007.

Year	Hot Dogs		Baseballs		Bottles of Soda	
	Price	Quantity	Price	Quantity	Price	Quantity
2005	\$2.00	100	\$5.00	50	\$2.00	100
2006	4.00	100	5.00	100	2.00	150
2007	6.00	100	5.00	100	2.00	200
2008	8.00	150	8.00	200	4.00	200
2009	10.00	200	10.00	200	4.00	250

Nominal GDP for 2009 equals

- A \$5,000.
- B \$3,600.
- C \$2,700.
- D \$2,300.

- 121 Use the following table to answer the next question. The base year is 2007.

Year	Hot Dogs		Baseballs		Bottles of Soda	
	Price	Quantity	Price	Quantity	Price	Quantity
2005	\$2.00	100	\$5.00	50	\$2.00	100
2006	4.00	100	5.00	100	2.00	150
2007	6.00	100	5.00	100	2.00	200
2008	8.00	150	8.00	200	4.00	200
2009	10.00	200	10.00	200	4.00	250

Real GDP (constant dollars) for 2009 equals

- A \$5,000.
- B \$3,600.
- C \$2,700.
- D \$2,300.

- 122 Use the following table to answer the next question. The base year is 2007.

Year	Hot Dogs		Baseballs		Bottles of Soda	
	Price	Quantity	Price	Quantity	Price	Quantity
2005	\$2.00	100	\$5.00	50	\$2.00	100
2006	4.00	100	5.00	100	2.00	150
2007	6.00	100	5.00	100	2.00	200
2008	8.00	150	8.00	200	4.00	200
2009	10.00	200	10.00	200	4.00	250

Real GDP (constant dollars) for 2005 equals

- A \$650.
- B \$1050.
- C \$1500.
- D \$100.

- 123 The gross domestic product is not a good measure of the standard of living in a nation because it

- A includes the cost of health insurance.
- B excludes payments for pollution control equipment.
- C does not account for the size of the population.
- D does not account for the cost of police protection.

124 What measure of economic development is used most often to classify nations as industrially advanced or as developing?

- A per capita income
- B life expectancy at birth
- C per capita energy consumption
- D daily per capita calorie supply

125 One common measure of the "standard of living" in a nation is

- A per capita real income.
- B unemployment rate.
- C real GDP.
- D population size.

126 Assume that the real output of a developing nation increases from \$120 billion to \$140 billion while its population expands from 100 to 110 million. As a result, real income per capita has increased by about

- A \$56 per person.
- B \$64 per person.
- C \$72 per person.
- D \$88 per person.

127 Assume the total real output of a developing country increases from \$8 billion to \$8.2 billion while its population expands from 14 to 15 million people from one year to the next. Over the year, per capita income has

- A increased by \$25 per person.
- B decreased by \$25 per person.
- C increased by \$533 per person.
- D decreased by \$533 per person.

128 Use the following table to answer the next question.

Year	Real GDP	Population
2008	\$20,000	200
2009	40,000	400
2010	60,000	400
2011	70,000	500

In 2008 real GDP per capita equals

- A \$20,000.
- B \$2,000.
- C \$1,000.
- D \$100.

129 Use the following table to answer the next question.

Year	Real GDP	Population
2008	\$20,000	200
2009	40,000	400
2010	60,000	400
2011	70,000	500

In 2009 real GDP per capita equals

- A \$20,000.
- B \$2,000.
- C \$1,000.
- D \$100.

130 Use the following table to answer the next question.

Year	Real GDP	Population
2008	\$20,000	200
2009	40,000	400
2010	60,000	400
2011	70,000	500

In 2011 real GDP per capita equals

- A \$70,000.
- B \$7,000.
- C \$140.
- D \$100.

131 Use the following table to answer the next question.

Year	Real GDP	Population
2008	\$20,000	200
2009	40,000	400
2010	60,000	400
2011	70,000	500

Real GDP per capita _____ between 2008 and 2009.

- A increases
- B decreases
- C remains constant
- D cannot be calculated

132 Use the following table to answer the next question.

Year	Real GDP	Population
2008	\$20,000	200
2009	40,000	400
2010	60,000	400
2011	70,000	500

Real GDP per capita _____ between 2009 and 2010.

- A increases
- B decreases
- C remains constant
- D cannot be calculated

133 Use the following table to answer the next question.

Year	Real GDP	Population
2008	\$20,000	200
2009	40,000	400
2010	60,000	400
2011	70,000	500

Real GDP per capita _____ between 2010 and 2011.

- A increases
- B decreases
- C remains constant
- D cannot be calculated

134 Use the following table to answer the next question.

Year	Real GDP	Population
2008	\$20,000	200
2009	40,000	400
2010	60,000	400
2011	70,000	500

Real GDP per capita is highest in which year?

- A 2008
- B 2009
- C 2010
- D 2011

135 The GDP deflator or price index equals

- A gross private domestic investment less the consumption of fixed capital.
- B gross national product less net foreign factor income earned in the United States.
- C nominal GDP divided by real GDP.
- D real GDP divided by nominal GDP.

136 GDP price index measures changes in the

- A value of final output produced in the nation.
- B prices of the output produced in the nation.
- C amount of resources available in the nation.
- D cost of resources employed in the nation.

137 A GDP price index of 130 in year A means that

- A prices in year A are on average 130% higher than in the base year.
- B prices in year A are on average 13 times that in the base year.
- C prices in year A are on average 30 percent higher than in the base year.
- D nominal GDP is 130% higher than real GDP in year A.

138 Use the following table to answer the next question.

Year	1	2	3	4	5	6
Price Index	100	95	105	125	125	120

Nominal GDP rises faster than real GDP between years

- A 1 and 2.
- B 2 and 4.
- C 4 and 5.
- D 5 and 6.

139 Use the following table to answer the next question.

Year	1	2	3	4	5	6
Price Index	100	95	105	125	125	120

If output increases by 8% from year 5 to year 6, then in that period

- A real GDP will rise faster than nominal GDP.
- B real GDP will rise slower than nominal GDP.
- C nominal GDP will decrease.
- D real GDP will decrease.

140 The base year is 2005, and the GDP price index in 2004 is 92.0. This implies that the

- A output in 2005 was higher than in 2004.
- B prices in 2005 were higher than in 2004.
- C output in 2005 was lower than in 2004.
- D prices in 2005 were lower than in 2004.

141 If the price index is rising over a period of time, then the real GDP in years

- A prior to the base year will be larger than the nominal GDP.
- B prior to the base year will be less than the nominal GDP.
- C after the base year will be higher than the nominal GDP.
- D after the base year will be rising faster than the nominal GDP.

142 Consumers in an economy buy only three general types of products, A, B, and C.

Changes in the prices of these items over a period are shown below:

Product	Quantity	Average Price per Unit	
		Year 1	Year 2
A	10	\$10	\$ 8
B	15	20	22
C	8	50	55

Using year 1 as the base year, the country's price index in year 2 is

- A 100.0
- B 103.9
- C 105.2
- D 106.3

143 Use the following table to answer the question below. GDP figures are in billions of dollars.

Year	Nominal GDP	Real GDP	Price Index
1	5,200	4,800	--
2	5,500	--	112
3	5,750	5,000	--

What is the GDP price index in year 1?

- A 105.2
- B 108.3
- C 109.6
- D 111.5

144 Use the following table to answer the next question. GDP figures are in billions of dollars.

Year	Nominal GDP	Real GDP	Price Index
1	5,200	4,800	--
2	5,500	--	112
3	5,750	5,000	--

What was real GDP in year 2?

- A \$4,820 billion
- B \$4,875 billion
- C \$4,911 billion
- D \$5,320 billion

145 Consider the following data for a nation.

Year	Nominal GDP	Price Index
1	\$35	90
2	40	100
3	45	110
4	48	120
5	56	140

The country's real GDP declined between years

- A 1 and 2.
- B 2 and 3.
- C 3 and 4.
- D 4 and 5.

146 One year nominal GDP was \$286 billion and the price index was 88. Real GDP that year was

- A \$252 billion.
- B \$325 billion.
- C \$308 billion.
- D \$262 billion.

147 If real GDP in a year was \$3,668 billion and the price index was 112, then nominal GDP in that year was approximately

- A \$3,846 billion.
- B \$3,925 billion.
- C \$4,108 billion.
- D \$4,379 billion.

148 A price index is

- A a comparison of the current price of a market basket to a fixed point of reference.
- B a comparison of real GDP in one period relative to another.
- C the cost of a market basket of goods and services in a base period divided by the cost of the same market basket in another period.
- D a ratio of real GDP to nominal GDP.

149 GDP understates the amount of economic production in the United States because it excludes

- A spending for the U.S. military.
- B transfer payments.
- C purchases of stocks and bonds.
- D work performed by people for their own benefit.

150 GDP tends to overstate economic well-being because it takes into account

- A all of the illegal activities conducted by organized crime in the economy.
- B spending on intermediate goods that are used to produce final goods.
- C total spending to deal with the adverse health effects of some products.
- D the personal labor time that car owners spend working on car repairs and maintenance of their vehicles.

151 GDP does not include which of the following activities?

- A Businesses installing anti-pollution equipment.
- B Households spending to enhance security of their neighborhoods.
- C Couples remodeling their own homes.
- D Families eating out in restaurants.

152 GDP tends to overstate economic well-being because it takes into account

- A improvements in product quality over time.
- B expenditures undertaken to correct pollution.
- C illegal activities of individuals and businesses.
- D nonmarket activities, such as the productive work of homemakers.

153 GDP excludes most nonmarket transactions. Therefore, GDP tends to

- A underestimate the rate of inflation in the economy.
- B overestimate the rate of inflation in the economy.
- C overestimate the amount of production of the economy.
- D underestimate the amount of production in the economy.

154 GDP estimates account for which of the following items?

- A do-it-yourself activities
- B "psychic income" people derive from their work
- C household spending for health and home insurance
- D improvements in product quality

155 GDP tends to underestimate the productive activity in the economy because it excludes the value of output from

- A public transfer payments to households.
- B the consumption of fixed capital.
- C the underground economy.
- D intermediate goods.

156 Gordon is a person who sells narcotics "on the street." This type of illegal activity

- A would be considered double counting in calculating GDP.
- B is estimated and included in GDP figures.
- C is excluded from GDP figures.
- D causes GDP to be overstated.

157 The service a homeowner performs when she mows her yard is not included in GDP because

- A this is a nonmarket transaction.
- B this is a nonproduction activity.
- C this is a noninvestment transaction.
- D multiple counting would be involved.

158 The "underground economy" is mostly made up of

- A unpaid work.
- B illegal activities.
- C do-it-yourself activities.
- D tax-evasion activities.

159 Which of the following activities is excluded from GDP, causing GDP to understate a nation's production?

- A The services of health care workers.
- B The services of military personnel.
- C The construction of new buildings.
- D Goods and services produced in the underground economy.

160 A large underground economy results in an

- A understated GDP.
- B overstated GDP.
- C understated GDP price index.
- D overstated GDP price index.

161 The GDP tends to

- A overstate economic welfare because it does not include certain nonmarket activities such as the productive work of housewives.
- B understate economic welfare because it includes expenditures undertaken to offset or correct pollution.
- C understate economic welfare because it does not take into account increases in leisure.
- D overstate economic welfare because it does not reflect improvements in product quality.

162 The growth of GDP may understate changes in the economy's economic well-being over time if the

- A distribution of income becomes increasingly unequal.
- B quality of products and services improves.
- C environment deteriorates because of pollution.
- D amount of leisure decreases.

163 Environmental pollution is accounted for in

- A GDP.
- B PI.
- C DI.
- D none of these.