

GDP Review Questions

3. Gross Domestic Product measures the
- quantity of the goods and services produced in a given year, listed item by item, within a country.
 - income of the business sector within a country.
 - market value of the final goods and services produced in a given year within a country.
 - measures the market value of the domestic labor in a given year within a country.

4. GDP measures the value of all
- goods and only goods produced.
 - services and only services produced.
 - final goods and services produced.
 - goods and services produced.

9. Honda has an assembly plant for Civics in Ohio. The production of U.S.-made Civics is
- added to U.S. GDP.
 - added to Japan's GDP because Honda is a Japanese company.
 - not included in either the U.S. or Japanese GDP.
 - added to U.S. GDP only if the Civic is sold in the United States in the year it is produced.

10. Which of the following is included in Germany's GDP?
- BMW's produced in a German owned factory in South Carolina
 - lumber produced and used in the construction of housing in Germany
 - the value of the stocks sold on the German stock exchange, the Frankfurt Stock Exchange
 - china produced by the English owned Wedgewood Company at a factory in Berlin, Germany

15. Which of the following would NOT be included in the U.S. GDP in 2003?
- the value of restaurant meals sold in 2003
 - the value of the computer chips produced in 2003 and used by I.B.M in their latest personal computer
 - the value of the automobiles produced in 2003 at the Toyota plant located in Georgetown, KY
 - legal services provided to first time home buyers during 2003

Consumption expenditures are defined as spending on goods and services by

- a. households, businesses and government.
- b. households.
- c. businesses and government.
- d. the rest of the world.

19. Investment is defined as the purchase of

- a. any financial asset only.
- b. additions to inventories only.
- c. financial assets and inventories only.
- d. the purchase of new capital goods and additions to inventories.

21. The purchase of stocks and bonds is

- a. included in GDP as an investment.
- b. included in GDP as a consumption expenditure.
- c. included in GDP as an intermediate good.
- d. not included in GDP as an investment.

26. Net exports of goods and services is defined as equal to

- a. U.S. sales of goods and services to the rest of the world minus U.S. purchases of goods and services from the rest of the world.
- b. U.S. sales of goods and services to the rest of the world plus U.S. purchases of goods and services from the rest of the world.
- c. U.S. sales of goods and services to the rest of the world.
- d. U.S. purchases of goods and services from the rest of the world.

30. The value of production equals consumption expenditure plus

- a. investment plus government purchases of goods and services.
- b. investment plus government purchases of goods and services minus net exports of goods and services.
- c. investment plus government purchases of goods and services plus net exports of goods and services.
- d. money plus government purchases of goods and services plus net exports of goods and services.

31. Gross Domestic Product equals

- a. $Y = C + I - G + NX$.
- b. $Y = C - I + G + NX$.
- c. $Y = C + I + G + NX$.

$$Y = C - I - G - NX.$$

33. Everything else the same, if consumption expenditure increases by \$200 billion and imports increase

by \$200 billion, then GDP

- a. increases by \$400 billion.
- b. increases by \$200 billion.
- c. decreases by \$400 billion.
- d. does not change.

35. In the circular flow, how are the “value of production”, “income”, and “expenditures” related?

- a. They have no relationship to each other.
- b. Once tax payments are subtracted at each stage, they are equal.
- c. Expenditures on GDP equals the value of production which equals income earned.
- d. Once net exports of goods and services are subtracted from GDP, they are equal.

40. If consumption was approximately 70 percent of GDP and both investment and government spending

were 18 percent each, then we see that

- a. GDP can be over 100 percent because it is “gross” rather than “net.”
- b. the error is due to rounding.
- c. exports must be less than imports.
- d. exports must be more than imports.

Item Billions of dollars

Consumption expenditure 7,500

Investment 1,300

Government purchases of goods and services 1,400

Net exports of goods and services -200

52. The category of “corporate profits” in the income approach to GDP is defined as

- a. that portion of profits that cover the cost of production.
- b. the total revenue earned selling the product.
- c. the portion of profits held by the corporation.
- d. profits retained by the corporation and those paid as dividends.

54. After calculating net domestic product at factor cost, to calculate GDP using the income approach, in

part we must add

- a. compensation of employees.

- b. proprietors' income and rental income of persons.
- c. indirect taxes and depreciation.
- d. rental income of persons, compensation of employees, and corporate profits

55. To measure GDP by using the income approach, we must add all incomes and
- a. depreciation only.
 - b. net taxes less subsidies only.
 - c. depreciation and net taxes less subsidies.
 - d. None of the above answers is correct.

58. "Capital consumption" is another name for
- a. depreciation.
 - b. household and only household expenditures on capital.
 - c. business and only business expenditures on capital.
 - d. both household and business expenditures on capital.

Compensation of employees 4,000
 Consumption expenditure 1,200
 Net interest 300
 Investment 1,200
 Rental income of persons 100
 Corporate profits 700
 Proprietors' income 500
 Indirect taxes minus subsidies 600
 Depreciation 900

60. The table above has information about an economy. Using this information, GDP equals
- a. \$5,600 billion.
 - b. \$7,100 billion.
 - c. \$8,300 billion.
 - d. \$9,500 billion.

63. The market value of a good
- a. equals the sum of the value added of a good at each stage of production.
 - b. equals the sum of the total value of a good at each stage of production.
 - c. will be overvalued if the value added of a good is summed at each stage of production.
 - d. can only be found using the expenditure approach.

68. If real GDP increases, then

- a. both prices and quantities must increase.
- b. only prices increase.
- c. only quantities increase.
- d. either prices or quantities increase.

74. Which of the following statement is correct?

- a. If nominal GDP increases, then real GDP must increase.
- b. If nominal GDP decreases, then real GDP must increase.
- c. If real GDP decreases, then nominal GDP must decrease.
- d. Nominal and real GDP can change either in the same direction or the opposite direction.

87. Real GDP is \$1,500 billion and nominal GDP is \$1,650. Hence the GDP deflator equals

- a. 100.0.
- b. 105.0.
- c. 110.0.
- d. 115.5.

106. Mexico City is notorious for its excessive pollution. Mexico's measure of GDP is

- a. decreased by the estimated value of the pollution.
- b. not affected by the value of the pollution.
- c. increased by the estimated value of the pollution.
- d. changed by the pollution only when comparing its GDP with the U.S. GDP.

110. Depreciation is

- a. fall in the value of an exchange rate.
- b. the decrease in the value of capital resulting from its use and obsolescence.
- c. the decrease in the purchasing power of a dollar because of inflation.
- d. None of the above answers is correct.