1. GDP is *all* of the following *except* the total:
   A) expenditure of everyone in the economy.
   B) income of everyone in the economy.
   C) expenditure on the economy's output of goods and services.
   D) output of the economy.

2. *All* of the following are measures of GDP *except* the total:
   A) expenditures of all businesses in the economy.
   B) income from all production in the economy.
   C) expenditures on all final goods produced.
   D) value of all final production.

3. Which of the following is a flow variable?
   A) wealth
   B) the number unemployed
   C) government debt
   D) income

4. The market value of all final goods and services produced within an economy in a given period of time is called:
   A) industrial production.
   B) gross domestic product.
   C) the GDP deflator.
   D) general durable purchases.

5. GDP is the market value of all ______ goods and services produced within an economy in a given period of time.
   A) used
   B) intermediate
   C) consumer
   D) final

6. *All* of the following transactions that took place in 2009 would be included in GDP for 2009 *except* the purchase of a:
   A) book printed in 2009, entitled *The Year 3000*.
   B) 2001 Jeep Cherokee.
   C) year 2010 calendar printed in 2009.
   D) ticket to see the movie *2001*. 
7. When a firm sells a product out of inventory, GDP:
   A) increases.
   B) decreases.
   C) is not changed.
   D) increases or decreases, depending on the year the product was produced.

8. Assume that a firm buys all the parts that it puts into an automobile for $10,000, pays its workers $10,000 to fabricate the automobile, and sells the automobile for $22,000. In this case, the value added by the automobile company is:
   A) $10,000.
   B) $12,000.
   C) $20,000.
   D) $22,000.

9. An example of an imputed value in the GDP is the:
   A) value-added of meals cooked at home.
   B) housing services enjoyed by homeowners.
   C) services of automobiles to their owners.
   D) value of illegal drugs sold.

10. The underground economy:
    A) is included in the latest GDP accounts.
    B) includes only illegal activities.
    C) includes domestic workers for whom Social Security tax is not collected.
    D) excludes the illegal drug trade.

11. The best measure of the economic satisfaction of the members of a society is:
    A) nominal GDP.
    B) real GDP.
    C) the rate of inflation.
    D) the value of corporate profits.

12. If the GDP deflator in 2009 equals 1.25 and nominal GDP in 2009 equals $15 trillion, what is the value of real GDP in 2009?
    A) $12 trillion
    B) $12.5 trillion
    C) $15 trillion
    D) $18.75 trillion
13. If nominal GDP grew by 5 percent and real GDP grew by 3 percent, then the GDP deflator grew by approximately ______ percent.
   A) 2
   B) 3
   C) 5
   D) 8

14. If nominal GDP increased by 5 percent and the GDP deflator increased by 3 percent, then real GDP ______ by ______ percent.
   A) increased; 2
   B) decreased; 2
   C) increased; 8
   D) decreased; 8

15. If GDP (measured in billions of current dollars) is $5,465, consumption is $3,657, investment is $741, and government purchases are $1,098, then net exports are:
   A) $131.
   B) $131.
   C) $31.
   D) $31.

16. If GDP (measured in billions of current dollars) is $5,465, consumption is $3,657, investment is $741, and net exports are −$1,910, then government purchases are:
   A) $2,977.
   B) $1,910.
   C) $843.
   D) $1,067.

17. If total investment (measured in billions of current dollars) equals $741, business fixed investment is $524, and residential fixed investment is $222, then inventory investment is:
   A) $5.
   B) −$5.
   C) $15.
   D) −$15.
18. GNP equals GDP ______ income earned domestically by foreigners ______ income that nationals earn abroad.
   A) plus; plus
   B) minus; minus
   C) minus; plus
   D) plus; minus

19. National income differs from net national product by an amount called:
   A) depreciation.
   B) indirect business taxes.
   C) a statistical discrepancy.
   D) net foreign factor income payments.

20. Assume that apples cost $0.50 in 2002 and $1 in 2009, whereas oranges cost $1 in 2002 and $0.50 in 2009. If ten apples and five oranges were purchased in 2002, and five apples and ten oranges were purchased in 2009, the CPI for 2009, using 2002 as the base year, is:
   A) 0.75.
   B) 0.80.
   C) 1.
   D) 1.25.

21. Assume that the market basket of goods and services purchased in 2004 by the average family in the United States costs $14,000 in 2004 prices, whereas the same basket costs $21,000 in 2009 prices. However, the basket of goods and services actually purchased by the average family in 2009 costs $20,000 in 2009 prices, whereas this same basket would have cost $15,000 in 2004 prices. Given this data, a Laspeyres price index of 2009 prices using 2004 as the base year would be:
   A) 1.05.
   B) approximately 1.07.
   C) approximately 1.33.
   D) 1.50.
22. Assume that the market basket of goods and services purchased in 2004 by the average family in the United States costs $14,000 in 2004 prices, whereas the same basket costs $21,000 in 2009 prices. However, the basket of goods and services actually purchased by the average family in 2009 costs $20,000 in 2009 prices, whereas this same basket would have cost $15,000 in 2004 prices. Given these data, a Paasche index for 2009 using 2004 prices would be:
A) 1.05.
B) approximately 1.07.
C) approximately 1.33.
D) 1.50.

23. Assume that the adult population of the United States is 191.6 million, total employment is 117.6 million, and 9.4 million are unemployed. Then the unemployment rate, as normally computed, is approximately ______ percent.
A) 4.9
B) 7.4
C) 7.9
D) 9.4

24. If 7 million workers are unemployed, 143 million workers are employed, and the adult population equals 200 million, then the unemployment rate equals approximately ______ percent.
A) 3.5
B) 4.7
C) 4.9
D) 7

25. If the unemployment rate is 6 percent and the number of employed is 188 million, then the labor force equals ______ million.
A) 11.28
B) 176.72
C) 188
D) 200

26. The household survey conducted by the Bureau of Labor Statistics provides estimates of the number of workers ______, while the establishment survey provides estimates of the number of workers ______.
A) self-employed; unemployed
B) unemployed; self-employed
C) with jobs; on firms' payrolls
D) on firms' payrolls; with jobs
27. A farmer grows wheat and sells it to a miller for $1; the miller turns the wheat into flour and sells it to a baker for $3; the baker uses the flour to make bread and sells the bread for $6. The value added by the miller is:
A) $1.
B) $2.
C) $3.
D) $6.

28. A woman marries her butler. Before they were married, she paid him $60,000 per year. He continues to wait on her as before (but as a husband rather than as a wage earner). She earns $1,000,000 per year both before and after her marriage. The marriage:
A) does not change GDP.
B) decreases GDP by $60,000.
C) increases GDP by $60,000.
D) increases GDP by more than $60,000.

29. A woman marries her butler. Before they were married, she paid him $60,000 per year. He continues to wait on her as before (but as a husband rather than as a wage earner). She earns $1,000,000 per year both before and after her marriage. If GDP were changed so that it truly measured the sum of all final economic activity, the marriage would:
A) decrease GDP.
B) increase GDP.
C) leave GDP unchanged.
D) first decrease and then increase GDP.

30. Assume two countries have the same nominal GDP (measured in the same currency using the same accounting rules). Explain at least three reasons why you cannot assume that citizens in each country enjoy approximately the same level of economic well-being.

31. Economic statistics are not perfect. Explain at least one way in which each of the following statistics as currently calculated in the United States fails to completely or accurately measure the corresponding economic concept (in parentheses):
   a. real GDP per person (economic well-being);
   b. CPI (cost of living);
   c. unemployment rate (involuntary unemployment).
32. One senator criticizes the government for making an inadequate effort to stimulate the economy based on data from the BLS establishment survey that shows the number of jobs in the economy has fallen. Another senator counters that the number of employed workers in the economy has increased over the same period, based on the BLS household survey. Explain how both senators can be correct.

33. Explain why the value of GDP in 2009 would or would not change as a result of each transaction described below:
   a. In 2009, the Smith family purchases a new house that was built in 2009.
   b. In 2009, the Jones family purchases a house that was built in 2001.
   c. In 2009, a construction company purchases windows to put in the Smith family home that was built in 2009.
   d. In 2009, Mr. Jones paints all of the rooms of the Jones family house purchased in 2009.
   e. In 2009, Mr. Smith uses an online brokerage service to purchase shares of stock in a construction company.
Answer Key

1. A
2. A
3. D
4. B
5. D
6. B
7. C
8. B
9. B
10. C
11. B
12. A
13. A
14. A
15. D
16. A
17. B
18. C
19. C
20. D
21. D
22. B
23. B
24. B
25. D
26. C
27. B
28. B
29. C
30. Some possible, but not all, explanations include:
   a. different price levels in the two countries would result in different amounts of real GDP, i.e., different quantities of goods and services available in each country;
   b. different-sized populations could result in different quantities of goods and services available per person in each country;
   c. different levels of nonmarket production in the two countries would alter the quantity of goods and services available in each country;
   d. different amounts of leisure time available (not captured in nominal GDP figures) would cause economic well-being to differ in the two countries;
   e. different distributions of income in the two countries could alter the quantity of goods and services available to the typical citizen in each country;
   f. different quantities of both positive and negative externalities associated with producing GDP, such as pollution and congestion, which are not measured in GDP, would cause the different levels of economic well-being between the two countries.
31. a. The official measure of GDP does not include measurements of leisure time available, nonmarket production, production in the underground economy, the distribution of income, or production externalities (e.g., pollution).
   b. The CPI does not allow substitution away from products with rising prices and has difficulty distinguishing between price changes and quality changes in products included in the index.
   c. The official unemployment rate does not take into account discouraged workers, part-time workers who desire full-time employment, and workers employed in jobs not matching their skill level, such as taxi drivers with PhDs in physics.

32. If the number of self-employed workers and workers employed in new start-up firms (who are included in the household survey, but not in the establishment survey) has increased more rapidly than the decline in payroll jobs counted in the establishment survey, then the number of employed workers as measured in the household survey could increase while the number of payroll jobs decreases.

33. a. GDP in 2009 increases by the purchase price of the house, which is a newly produced good.
   b. GDP in 2009 does not change because the house is not a newly produced good, since it was built in 2001. Transactions involving used goods are not included in GDP.
   c. GDP in 2009 does not change directly because the windows are intermediate goods, not final goods. The value of intermediate goods is not included in GDP to avoid double counting. The value of the windows is implicitly included in the price of the house.
   d. GDP in 2009 does not change because home production is not included in GDP.
   e. GDP in 2009 does not change because financial transactions do not represent the production of final goods and services and are not included in GDP.