

Chapter 6 Measuring National Output and National Income

1 Multiple Choice

1) The total market value of all final goods and services produced within a given period by factors of production located within a country is

- A) gross domestic product.
- B) gross national product.
- C) net national product.
- D) net national income.

Answer: A

2) Gross domestic product measures

- A) the total spending of everyone in the economy.
- B) the value of all output in the economy.
- C) the total income of everyone in the economy.
- D) all of the above

Answer: D

3) Which of the following is an example of a final good or service?

- A) wheat a bakery purchases to make bread
- B) coffee beans Starbucks purchases to make coffee
- C) lumber purchased by a construction company to used in building houses
- D) a computer purchased by Federal Express to track shipments

Answer: D

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4) Which of the following is a good or service counted in GDP?

- A) tires Ford buys to put on a car
- B) a used tire you buy for your personal car
- C) a new tire you buy for your personal car
- D) used tires bought by a used car dealer to put on a car on his lot

Answer: C

5) Double counting can be avoided by

- A) including the value of intermediate goods in the current year.
- B) not counting the value of intermediate goods in GDP.
- C) including the value of intermediate goods in the GNP but not in the GDP.
- D) including the value of intermediate goods in the production year but not in the selling year of those goods.

Answer: B

6) Gross national product is the total market value of

- A) all final and intermediate goods and service produced by resources owned by a country

in a given year.

B) all final and intermediate goods and services produced in a country, regardless of who owns the resources.

C) all final goods and services produced in a country in a given year, regardless of who owns the resources.

D) all final goods and services produced by resources owned by a country, regardless of where production takes place.

Answer: D

11) If no foreign companies produce in a country, but many of the country's companies produce abroad, then

A) the country's GNP will tend to exceed its GDP.

B) the country's GDP will tend to exceed its GNP.

C) the country's GNP and GDP will tend to be equal.

D) the country's GDP will tend to be equal to its domestic income.

Answer: A

12) Which of the following is included in both the U.S. GDP and GNP?

A) The value of all cars produced by Ford in Mexico.

B) The value of all cars produced by General Motors in the U.S.

C) The value of all cars produced by Toyota in the U.S.

D) The value of cars produced by Nissan in Japan and the U.S.

Answer: B

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13) Which of the following is NOT counted in the GNP of the United States?

A) The wage of a U.S. citizen who works in a foreign country for a foreign firm.

B) The interest earned by a U.S. bank on loans to a business firm located in Brazil.

C) The profit earned by a restaurant located in the United States but owned by a Mexican company.

D) The value of services that are produced by state and local governments in the United States.

Answer: C

15) Profits earned in the United States by foreign-owned companies are included in

A) the U.S. GDP but not GNP. B) neither the U.S. GDP nor GNP.

C) the U.S. GNP but not GDP. D) both the U.S. GDP and GNP.

Answer: A

17) The GDP includes

- A) the value of all intermediate goods and services.
- B) the value of all final goods and services.
- C) the value of both intermediate and final goods and services.
- D) the value of all transactions.

Answer: B

18) Income Mexican citizens earn in the U.S. counts in

- A) U.S. GNP.
- B) Mexican GNP.
- C) Mexican GDP.
- D) both U.S. and Mexican GDP.

Answer: B

2 True/False

1) GDP measures the total income of everyone and the total spending by everyone in the economy.

Answer: FALSE

3) The income of U.S. citizens working abroad counts in U.S. GDP.

Answer: FALSE

4) Stock market transactions are part of GNP.

Answer: FALSE

5) Value added is the difference between the value of good as they leave a stage of production and cost of the goods as they entered that stage of production.

Answer: TRUE

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1 Multiple Choice

1) The equation for GDP using the expenditure approach is

- A) $GDP = C + I + G + EX - IM$.
- B) $GDP = C + I + G + (IM - EX)$.
- C) $GDP = C + I + G + EX + IM$.
- D) $GDP = C + I + G - EX - IM$.

Answer: A

2) The single largest expenditure component in GDP is

- A) government spending.
- B) investment.
- C) consumption.
- D) net exports.

Answer: C

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

	\$Billions
Durable goods	400
Nonresident investment	300
Federal purchase of goods	300
Exports	500
State and local purchases of goods	250
Residential investment	50
Services	650
Imports	150
Change in business inventories	-25
Nondurable goods	600

3) Refer to Table 6.1. Personal consumption expenditures in billions of dollars are

- A) 1,000.
- B) 1,300.
- C) 1,500.
- D) 2,000.

Answer: D

4) Refer to Table 6.1. The value for gross private domestic investment in billions of dollars is

- A) 300.
- B) 375.
- C) 425.
- D) 450.

Answer: C

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5) Refer to Table 6.1. The value for net exports in billions of dollars is

- A) 150.
- B) 250.
- C) 650.
- D) 800.

Answer: A

6) Refer to Table 6.1. The value of gross domestic product in billions of dollars is

- A) 3,000.
- B) 3,075.
- C) 3,125.
- D) 3,750.

Answer: B

7) Refer to Table 6.1. The value of government spending in billions of dollars is

- A) 100. B) 200. C) 300. D) 500.

Answer: D

Refer to the information provided in Table 6.2 below to answer the questions that follow.

Table 6.2

	\$Billions
Compensation of employees	475
Proprietors' income	60
Corporate profit	40
Net interest	25
Rental income	10
Depreciation	70
Indirect taxes	40
Direct taxes	80
Subsidies	15
Payments of factor income to the rest of the world	20
Receipts of factor income from the rest of the world	15

8) Refer to Table 6.2. Personal consumption expenditures in billions of dollars are

- A) 900.
- B) 1,100.
- C) 1,400.
- D) 1,600.

Answer: C

9) Refer to Table 6.2. The value for gross private domestic investment in billions of dollars is

- A) 740.
- B) 810.
- C) 850.
- D) 890.

Answer: D

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10) Refer to Table 6.2. The value for net exports in billions of dollars is

- A) -200.
- B) -150.
- C) 50.
- D) 250.

Answer: B

11) Refer to Table 6.2. The value for gross domestic product in billions of dollars is

- A) 2,900.
- B) 3,140.
- C) 3,440.
- D) 3,650.

Answer: B

12) Refer to Table 6.2. The value of government spending in billions of dollars is

- A) 200.
- B) 600.
- C) 800.
- D) 1,000.

Answer: D

15) The change in business inventories is measured as

- A) final sales minus GDP.
- B) final sales plus GDP.
- C) GDP minus final sales.
- D) the ratio of final sales to GDP.

Answer: C

16) In 2007 final sales equal \$200 billion, and the change in business inventories is \$50 billion. GDP in 2007

- A) is \$250 billion.
- B) is \$200 billion.
- C) is \$150 billion.
- D) is \$40 billion.

Answer: A

17) In 2006 final sales equal \$350 billion and the change in business inventories is -\$60 billion. GDP in 2006

- A) is \$290 billion.
- B) is \$295 billion.
- C) is \$410 billion.
- D) cannot be determined from this information.

Answer: A

18) In 2008 the change in business inventories is -\$70 billion and GDP is \$200 billion. Final sales in 2008

- A) are \$130 billion.
- B) are \$200 billion.
- C) are \$270 billion.
- D) are \$340 billion.

Answer: C

19) In 2007, GDP was exactly equal to final sales. This implies that

- A) there was accumulation of inventories that year.
- B) there was a decline in inventories that year.
- C) there was no change in inventories that year.
- D) GDP did not grow that year compared to the year before.

Answer: C

20) If the change in business inventories is zero, then final sales are

- A) zero.
- B) less than GDP.
- C) greater than GDP.
- D) equal to GDP.

Answer: D

21) If in a year there is a positive inventory investment, then final sales

- A) exceed GDP.
- B) are less than GDP.

C) equal GDP. D) are zero.

Answer: B

22) Net investment equals

A) GDP minus final sales. B) gross investment minus final sales.

C) gross investment minus depreciation. D) depreciation plus GDP.

Answer: C

23) If net investment is zero, then

A) gross investment is greater than depreciation.

B) gross investment is less than depreciation.

C) gross investment equals depreciation.

D) depreciation is zero.

Answer: C

24) Suppose that net investment in 2008 was \$20 billion and depreciation was \$4 billion. Gross investment in 2008 was

A) \$16 billion.

B) \$20 billion.

C) \$24 billion.

D) \$28 billion.

Answer: C

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25) The total value of all capital goods newly produced in a given period is

A) the change in business inventories.

B) depreciation.

C) net investment.

D) gross investment.

Answer: D

26) The change in capital stock in a period is equal to

A) the ratio of the amount of the capital at the beginning of the period to the amount of depreciation.

B) the amount of the capital stock at the beginning of the period plus gross investment minus depreciation.

C) the amount of the capital at the beginning of the period plus gross investment.

D) the amount of the capital at the beginning of the period minus net investment.

Answer: B

27) Net investment is

A) gross investment minus depreciation. B) gross investment plus depreciation.

C) depreciation minus gross investment. D) GNP minus final sales.

Answer: A

28) Depreciation is

- A) the decrease in the overall price level.
- B) the additional capital stock in a year.
- C) the amount of used up machinery in a year.
- D) the amount of decline in business inventories.

Answer: C

29) If net investment in 2007 is \$350 billion and gross investment in 2007 is \$500 billion, depreciation in 2007 is

- A) \$0.7 billion.
- B) \$150 billion.
- C) \$175 billion.
- D) \$250 billion.

Answer: B

3) Exports equal

- A) imports - net exports. B) net exports + imports.
- C) net exports - imports. D) imports + (exports + imports).

Answer: B

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34) When calculating GDP, exports are _____ and imports are _____.

- A) added; added
- B) added; subtracted
- C) subtracted; added
- D) subtracted; subtracted

Answer: B

35) If the value of net exports is negative, then

- A) exports exceed imports. B) imports exceed exports.
- C) exports equal imports. D) imports are zero.

Answer: B

37) What should be subtracted from GDP to calculate national income?

- A) depreciation
- B) indirect taxes
- C) personal income taxes.

D) net factor payments to the rest of the world

Answer: A

41) What type of tax affects the amount of money you pay for a product?

A) direct tax

B) income tax

C) indirect tax

D) all of the above

Answer: C

42) Depreciation is

A) subtracted from national income to get GDP.

B) added to national income to get GDP.

C) subtracted from GNP to get NNP.

D) added to GNP to get NNP.

Answer: C

47) If receipts of factor income from the rest of the world exceed payments of factor income to the rest of the world, then

A) GDP is greater than GNP.

B) GDP equals GNP.

C) GNP equals NNP.

D) GNP is greater than GDP.

Answer: D

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Refer to the information provided in Table 6.4 below to answer the questions that follow.

Table 6.4

	\$Billions
Depreciation	30
Receipts of factor income from the rest of the world	20
Government purchases	90
Imports	40
Payments of factor income to the rest of the world	40
Net private domestic investment	150
Personal taxes	90
personal consumption expenditures	500
Dividends	10
Exports	60
Amount of national income not going to households	30

48) Refer to Table 6.4. The value for GDP in billions of dollars is

- A) 910.
- B) 920.
- C) 950.
- D) 1,050.

Answer: C

49) Refer to Table 6.4. The value for GNP in billions of dollars is

- A) 900.
- B) 930.
- C) 980.
- D) 1,010.

Answer: B

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50) Refer to Table 6.4. The value for NNP in billions of dollars is

- A) 890.
- B) 910.
- C) 940.
- D) 970.

Answer: A

51) Refer to Table 6.4. The value for national income in billions of dollars is

- A) 890.
- B) 910.
- C) 940.
- D) 970.

Answer: A

52) Refer to Table 6.4. The value for personal income in billions of dollars is

- A) 870.
- B) 890.

C) 950.

D) 960.

Answer: A

53) Refer to Table 6.4. The value for disposable personal income in billions of dollars is

A) 750.

B) 770.

C) 820.

D) 990.

Answer: A

54) If GNP is \$600 billion, receipts of factor income from the rest of the world are \$50 billion, and payments of factor income to the rest of the world are \$30 billion, then GDP is

A) \$520 billion.

B) \$580 billion.

C) \$620 billion.

D) \$680 billion.

Answer: B

55) If GNP is \$200 billion, receipts of factor income from the rest of the world are \$10 billion, and payments of factor income to the rest of the world are \$30 billion, then GDP is

A) \$160 billion. B) \$210 billion. C) \$220 billion. D) \$240 billion.

Answer: C

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56) If GDP is \$500 billion and depreciation is \$40 billion, then net national product

A) is \$460 billion.

B) is \$500 billion.

C) is \$540 billion.

D) cannot be determined from this information.

Answer: D

57) If GDP is \$300 billion, depreciation is \$30 billion, and net factor income from the rest of the world is -\$40 billion, then net national product is

A) \$230 billion.

B) \$270 billion.

C) \$290 billion.

D) \$310 billion.

Answer: D

58) If GNP is \$800 billion and depreciation is \$90 billion, then net national product is

A) \$710 billion.

B) \$845 billion.

C) \$890 billion.

D) \$980 billion.

Answer: A

59) If GNP is \$200 billion and depreciation is \$20 billion, then net national product is

- A) \$100 billion.
- B) \$180 billion.
- C) \$210 billion.
- D) \$220 billion.

Answer: B

61) Net national product is

- A) GDP plus depreciation.
- B) GDP minus depreciation.
- C) GNP minus depreciation.
- D) GNP plus depreciation.

Answer: C

63) Personal income is national income minus

- A) depreciation.
- B) net factor income to the rest of the world.
- C) the amount of national income not going to households.
- D) imports.

Answer: C

64) If national income is \$600 billion, personal income is \$400 billion, personal taxes are \$120 billion, then disposable income equals

- A) \$480 billion.
- B) \$320 billion.
- C) \$280 billion.
- D) \$80 billion.

Answer: C

65) Which of the following is subtracted from national income to get to personal income?

- A) retained earnings
- B) personal interest income
- C) depreciation
- D) personal Taxes

Answer: A

66) Personal income

- A) is always less than national income.
- B) is always greater than national income.
- C) may be greater than or less than national income.
- D) will always equal national income.

Answer: C

67) If personal income is \$925 billion and personal income taxes are \$70 billion, the value of disposable personal income is

- A) \$835 billion.
- B) \$855 billion.
- C) \$890 billion.
- D) \$995 billion.

Answer: B

68) If personal saving is -\$10 billion and disposable personal income is \$370 billion, then personal consumption spending

- A) is \$360 billion.
- B) is \$380 billion.
- C) is \$390 billion.
- D) cannot be determined from this information.

Answer: B

69) The personal saving rate is

- A) the difference between total personal spending and personal saving.
- B) the difference between personal income and disposable personal income.
- C) the ratio of personal income to personal saving.
- D) the percentage of disposable personal income that is saved.

Answer: D

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70) If disposable personal income is \$400 billion and personal saving is \$8 billion, the personal saving rate is

- A) 1.5%. B) 2%. C) 5%. D) 12%.

Answer: B

71) If the personal saving rate is 5% and personal saving is \$10 billion, the value of personal disposable income

- A) is \$100 billion.
- B) is \$200 billion.
- C) is \$500 billion.
- D) cannot be determined from this information.

Answer: B

2 True/False

1) Transfer payments are subtracted from national income to get to personal income.

Answer: FALSE

2) If investment is larger than depreciation, the capital stock decreases.

Answer: FALSE

3) Depreciation is included in GDP, but excluded from NNP.

Answer: TRUE

4) Final sales plus changes in inventories equals GDP.

Answer: TRUE

5) New houses count as consumer durables.

Answer: FALSE

6) Dairy Queen opens a branch in Estonia. The sales of the restaurant enter the U.S. GDP and the Estonian GNP.

Answer: FALSE

7) Consumers can spend their entire personal income.

Answer: FALSE

8) The difference between GNP and GDP is depreciation.

Answer: FALSE

9) Disposable personal income is personal income minus personal taxes.

Answer: TRUE

1 Multiple Choice

1) Nominal GDP measures the value of all goods and services

A) in constant dollars.

B) in current dollars.

C) in fixed dollars.

D) without inflation.

Answer: B

2) Gross domestic product measured in terms of the prices of a fixed, or base, year is

A) current GDP.

B) base GDP.

C) real GDP.

D) nominal GDP.

Answer: C

3) Nominal GDP is gross domestic product measured

A) in the prices of a base year.

B) in current dollars.

C) at a constant output level but at the base-year prices.

D) as the difference between the current year's GDP and last year's GDP.

Answer: B

4) Real GDP is gross domestic product measured

A) at a constant output level but at current prices.

B) in current dollars.

C) in the prices of a base year.

D) as the difference between the current year's GDP and last year's GDP.

Answer: C

5) If real GDP in 2007 using 2006 prices is lower than nominal GDP of 2007, then

A) prices in 2007 are lower than prices in 2006.

B) nominal GDP in 2007 equals nominal GDP in 2006.

C) prices in 2007 are higher than prices in 2006.

D) real GDP in 2007 is larger than real GDP in 2006.

Answer: C

- 6) If real GDP in 2008 using 2007 prices is higher than nominal GDP of 2008, then
- A) prices in 2008 are lower than prices in the base year.
 - B) nominal GDP in 2008 equals nominal GDP in 2007.
 - C) prices in 2008 are higher than prices in the base year.
 - D) real GDP in 2008 is larger than real GDP in 2007.

Answer: A

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

Table 6.5

	Production			Prices		
	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
Good X	50	75	100	\$1.00	\$1.00	\$1.20
Good Y	100	100	130	\$0.60	\$0.75	\$1.00

- 7) Refer to Table 6.5. Assume that this economy produces only two goods Good X and Good Y. The value for this economy's nominal GDP in year 1
- A) is \$140.
 - B) is \$160.
 - C) is \$180.
 - D) is \$200.
- Answer: A

- 8) Refer to Table 6.5. Assume that this economy produces only two goods Good X and Good Y. The value for this economy's nominal GDP in year 3 is
- A) \$204.
 - B) \$222.
 - C) \$250.
 - D) \$270.
- Answer: D

- 9) Refer to Table 6.5. Assume that this economy produces only two goods Good X and Good Y. The value for this economy's nominal GDP in year 2 is
- A) \$168. B) \$179. C) \$202. D) \$214.
- Answer: B

- 10) Refer to Table 6.5. Assume that this economy produces only two goods Good X and Good Y. If year 1 is the base year, the value for this economy's real GDP in year 2 is
- A) \$168. B) \$179. C) \$202. D) \$214.
- Answer: A

- 11) Refer to Table 6.5. Assume that this economy produces only two goods Good X and Good Y. If year 1 is the base year, the value for this economy's GDP deflator in year 1 is
- A) 1. B) 100. C) 110. D) 111.
- Answer: B

12) Refer to Table 6.5. Assume that this economy produces only two goods Good X and Good Y. If year 1 is the base year, the value for this economy's GDP deflator in year 2 is
A) 93.9. B) 100. C) 106.5. D) 179.

Answer: C

13) Refer to Table 6.5. Assume that this economy produces only two goods Good X and Good Y. If year 1 is the base year, the value for this economy's inflation rate between year 1 and year 2 is
A) -6.1%. B) -5.5%. C) 6.5%. D) 79%.

Answer: C

14) The GDP deflator is the

A) difference between real GDP and nominal GDP multiplied by 100.

B) difference between nominal GDP and real GDP multiplied by 100.

C) ratio of nominal GDP to real GDP multiplied by 100.

D) ratio of real GDP to nominal GDP multiplied by 100.

Answer: C

15) If nominal GDP is \$8 trillion and real GDP is \$6 trillion, the GDP deflator is
A) 48. B) 75. C) 133.33. D) 480.

Answer: C

16) If the GDP deflator is greater than 100, then

A) nominal GDP is greater than real GDP.

B) nominal GDP is lower than real GDP.

C) nominal GDP equals real GDP.

D) prices decreased by more than half between the current and the base years.

Answer: A

17) The GDP deflator in year 2 is 110 and the GDP deflator in year 3 is 118. The rate of inflation between years 2 and 3 is

A) 4.55%. B) 7.27%. C) 8%. D) 18%.

Answer: B

2 True/False

1) If in the same period output doubles and the price level remains the same, nominal GDP doubles.

Answer: TRUE

2) A GDP deflator is real GDP divided by nominal GDP times 100.

Answer: FALSE

3) If the GDP deflator next year is less than the GDP deflator this year, then the price level has fallen.

Answer: TRUE

4) GDP measured in base year prices is real GDP.

Answer: TRUE

5) If nominal GDP rises, then so must real GDP.

Answer: FALSE

6) If real GDP rises, then so must nominal GDP.

Answer: FALSE

7) If real GDP increased during a year, then output must have increased.

Answer: TRUE

6.4 Limitations of the GDP Concept

1 Multiple Choice

1) GDP is not a perfect measure of social welfare and the society's economic well-being because

- A) it does not say anything about the distribution of income.
- B) GDP accounting rules do not adjust for production that causes negative externalities.
- C) it does not include all economic activities in the economy.
- D) all of the above

Answer: D

2) Legalizing all forms of illegal activities would

- A) reduce measured GDP.
- B) reduce the size of the underground economy and increase measured GDP.
- C) reduce both the underground economy and measured GDP.
- D) increase the size of the underground economy and reduce measured GDP.

Answer: B

3) Per capita gross national income (GNI) decreases when

- A) GNI and the population increase at the same rate.
- B) GNI does not change and the population increases.
- C) GNI and the population decrease at the same rate.
- D) GNI increases and the population does not change.

Answer: B

4) Gross national income is

- A) GNP converted into dollars using an average exchange rate over several years adjusted for rates of inflation.
- B) GDP converted into dollars using an average exchange rate over several years adjusted for rates of inflation.
- C) GNP measured using an incomes approach.
- D) GNP divided by population.

Answer: A

5) The base year of an index is

- A) the year chosen for the weights in a fixed weight procedure.
- B) the year currently being calculated.
- C) the last year of the index.
- D) the first year of the index.

Answer: A

2 True/False

1) All economic activities in the economy are included in the GDP.

Answer: FALSE

2) The costs of pollution are subtracted from the value of final sales before calculating GDP.

Answer: FALSE

3) A weakness in the concept of GDP is that it ignores income distribution.

Answer: TRUE

4) Production in the illegal or underground economy is not reflected in GDP.

Answer: TRUE

5) Fixed weight indexes can not account for new goods.

Answer: TRUE

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