1. Which part of this definition for GDP is incorrect? GDP measures the:
A. Wholesale value,
B. All final goods and services
C. Produced for the market
D. By domestically owned or foreign-owned resources
E. within a nations geographic borders
F. over a given period of time.

ANS: A DIF: Easy

2. Which part of this definition for GDP is incorrect? GDP measures the
A. Market value,
B. All final and intermediate goods and services,
C. Produced,
D. By domestically owned or foreign-owned resources,
E. Within a nations geographic borders,
F. Over a given period of time.

ANS: B DIF: Easy

3. GDP is measured in terms of market value because:
A. Actually, GDP is not measured as a market value. GNP measures market values.
B. Otherwise, it would be impossible to combine all the heterogeneous goods and services consumed in a nation.
C. Otherwise, it would be impossible to combine all the heterogeneous goods and services produced in a nation.
D. Otherwise, it would be impossible to combine domestically produced goods and services with foreign goods and services consumed by the public.
E. Otherwise, it would be impossible to separate the domestically produced goods and services from foreign goods and services consumed by the public.

ANS: C DIF: Easy

4. If the number of stages between input production and final product production increases then:
A. GDP and GNP both rise.
B. GDP and GNP both fall.
C. GDP and GNP both remain unchanged.
D. GDP rises and GNP falls.
E. GDP falls and GNP rises.

ANS: C DIF: Easy

5. All of the following are shortcomings of GDP as a measure to human well-being except it :
A. Excludes non-market transactions.
B. Excludes international transactions.
C. Excludes black market and underground transactions.

D.  Excludes quality improvements that do not increase price or quantity sold.
E.  Excludes the value of leisure time.
F.  Counts harmful and dangerous output the same as useful output.

ANS:  B		DIF: Easy

6.  If you marry your electrician:
A.  Real and nominal GDP rise.
B.  Real GDP rises but nominal GDP falls.
C.  Real GDP falls, but nominal GDP rises.
D.  Real and nominal GDP fall.
E.  There is no change in real or nominal GDP.

ANS:  D		DIF: Easy

7.  The flow of total expenditures from the household sector to the business sector is called a nation's:
A.  Supply.
B.  Demand.
C.  Gross private domestic investment.
D.  Net private domestic investment.
E.  None of the above.

ANS:  B		DIF: Easy

8.  The flow of goods and services from the business sector to the household sector is called the nation's:
A.  Supply.
B.  Demand.
C.  Gross private domestic investment.
D.  Net private domestic investment.
E.  None of the above.

ANS:  A		DIF: Easy

9.  Macroeconomic equilibrium is always good, because:
A.  It gives the nation a breather and allows it to catch up with itself economically.
B.  Because it is the only place where actual demand equals actual supply.
C.  Because it is the only place where planned demand equals planned supply.
D.  Actually, macroeconomic equilibrium can be either good or bad. It is not always good.
E.  All of the above.
F.  None of the above.

ANS:  D		DIF: Easy

10.  The circular flow diagram divides the economy into:

A. Winners and losers.
B. Real sector and nominal sector.
C. Domestic sector and foreign sector.
D. Agricultural sector and non-agricultural sector.
E. Producer sector and consumer sector.
F. Operating sector and non-operating sector.

ANS: E DIF: Easy

11. The circular flow diagram divides the economy into:
A. Household sector and business sector.
B. Real sector and nominal sector.
C. Domestic sector and foreign sector.
D. Agricultural sector and non-agricultural sector.
E. None of the above is correct.

ANS: A DIF: Easy

12. Which of the following is not counted as an economic resource?
A. Land.
B. Physical labor.
C. Mental abilities of labor.
D. Money supply.
E. Entrepreneurship.
F. All are included.

ANS: D DIF: Easy

13. Which of the following is not counted as an economic resource?
A. Forests.
B. Mental abilities of labor.
C. Stocks and bonds.
D. Entrepreneurship.
E. All are included.

ANS: C DIF: Easy

14. The economic return to oil resources is called:
A. Rent.
B. Wages.
C. Profits.
D. Interest.
E. None of the above.

ANS: A DIF: Easy

15.  The economic return to entrepreneurship is called:
A.  Rent.
B.  Wages.
C.  Profits.
D.  Interest.
E.  None of the above.

ANS:  C          DIF: Easy

16.  A major macroeconomic leakage from the circular flow is:
A.  Consumption
B.  Savings
C.  Saving
D.  Gross private domestic investment
E.  Government spending.
F.  All of the above.
G.  None of the above.

ANS:  C          DIF: Easy

17.  GNP and GDP are important economic variables, because of their close association to :
A.  Economic well-being and the exchange rate.
B.  Real interest rates and the nominal exchange rate.
C.  Nominal and real interest rates.
D.  Nominal interest rates and real exchange rates.
E.  Economic well-being and unemployment.

ANS:  E          DIF: Medium

18.  GNP and GDP:
A.  Are quite different because GDP measures a nation's income, and GNP measures a nation's output.
B.  Both measure a nation's income and output.
C.  Are quite different, because GNP measures a nation's income and GDP measures a nation's output.
D.  Are both stock measures of a nation's output.
E.  Are both stock measures of a nation's income.

ANS:  B          DIF: Medium

19.  The main difference between GNP and GDP is:
A.  GDP measures a nation's income, and GNP measures a nation's output.
B.  Largely in the minds of the public, because economically, there is no difference.
C.  GDP measures the income earned from the production of all final goods and services within a nation's borders; GNP measures the income earned by domestically-owned resources from producing final goods and services anywhere in the world.

D.  GDP measures a nation's output, and GNP measures a nation's income.

ANS:  C          DIF: Medium

20.  A good way to view macroeconomic equilibrium is:
A.  Water at rest in a tub.
B.  Two opposing forces, like water flowing into and out of a tub but the level remaining constant.
C.  A state of complete rest, where an economy comes to a complete halt for a brief period.
D.  A state of rapid change, but one where the adjustment from one level to another is so quick that the shifts are seamless to most observers.
E.  Where the supply and demand for economic activity equals the supply and demand for political activity.

ANS:  B          DIF: Medium

21.  Which of the following relationships is correct?
A.  GDP = GNP + Net foreign income
B.  GNP = GDP + Net foreign income
C.  GDP = Consumption + Net foreign income
D.  GDP = GNP + Balance of payments
E.  GDP = GNP adjusted for the foreign exchange rate

ANS:  B          DIF: Medium

22.  To calculate nominal GDP, you:
A.  Multiply the quantity of everything consumed by the price of everything consumed, and sum the results.
B.  Multiply the exchange rate by the price of each good and service produced. Then sum them and divide by the domestic price index.
C.  Add the price of everything consumed to the quantity of everything consumed and sum the results.
D.  Add the quantities of everything produced to the average national price level and then multiply times one plus the inflation rate [i.e., (1 + inflation rate].
E.  Multiply the quantity of everything produced by the price of everything produced, and sum the results.

ANS:  E          DIF: Medium

23.  If a good is produced but not consumed, then:
A.  It is not included in GDP or GNP.
B.  It is not included in GDP, but it is included in GNP.
C.  It is not included in GNP, but it is included in GDP.
D.  It enters into gross private domestic investment, which is a part of GDP and GNP.
E.  It enters into "passive consumption," which is a part of GDP in the following period.

ANS: D DIF: Medium

24. All other things remaining the same, a large increase in the net number of illegal aliens in the United States from Mexico causes:
A. U.S. GNP to be greater than the U.S. GDP.
B. U.S. GNP to be less than the U.S. GDP.
C. U.S. gross private domestic investment to rise.
D. U.S. GNP to be greater than the U.S. GDP because U.S. gross private domestic investment rises

ANS: B DIF: Medium

25. If desired demand is greater than desired supply, then:
A. Business inventories could be rising or falling, depending on how they are valued.
B. Business inventories are falling.
C. Increases in residential construction are usually the reason, because they are measured at the end of each period.
D. It is impossible for demand to be greater than supply, because supply limits demand.
E. None are correct.

ANS: B DIF: Medium

26. Stocks and bonds:
A. Are both components of gross private domestic investment.
B. Are not a part of gross private domestic investment, because to include them would be double counting a nation's assets and liabilities.
C. Are not a part of gross private domestic investment, because to include them would be double counting a nation's personal consumption and investment.
D. Are not a part of gross private domestic investment, because they are a part of financial services, which are a separate component of GDP.
E. None of the above.

ANS: B DIF: Medium

27. Which of the following is correct? Gross private domestic investment:
A. Includes government spending when it is for construction that will aid businesses.
B. Includes investment spending to replace depreciated machinery.
C. Includes stock and bonds.
D. Excludes spending for new residential housing.
E. All are correct.
F. All are incorrect.
G. None are included.

ANS: B DIF: Medium

28. Which of the following is correct? Gross private domestic investment:
A. Includes goods that are produced but not consumed.
B. Is always greater than Personal Consumption Expenditures.
C. Includes stock and bonds.
D. Excludes spending for new residential housing.
E. All are correct.
F. All are incorrect.

ANS: A DIF: Medium

29. All of the following are macroeconomic injections into the circular flow except:
A. Consumption
B. Gross private domestic investment
C. National government spending
D. State and local government spending
E. All of the above.
F. None of the above.

ANS: A DIF: Medium

30. "Net exports" rather than "exports" are included in demand/expenditures, because:
A. Actually, exports are included and not net exports because only exports are a source of demand.
B. Imports are counted in personal consumption expenditures. Therefore, net exports instead of just exports are included in aggregate demand.
C. Imported goods and services are a part of personal consumption, gross private domestic Investment, and government spending. Therefore, net exports instead of just exports are included in demand.
D. Neither exports nor net exports are included in aggregate demand.
E. None of the above.

ANS: C DIF: Hard

31. Macroeconomic equilibrium occurs when:
A. Supply equals demand
B. Expected supply equals expected demand.
C. Expected leakages equal expected injections.
D. Leakages equal injections.
E. Supply equals demand *and* leakages equal injections.
F. Expected supply equals expected demand, which means expected leakages equal expected injections.
G. None of the above.

ANS: F DIF: Hard

32. Which of the following is correct? When actual supply exceeds actual demand, then:
A. Inventories rise, unemployment tends to rise, and prices tend to fall.
B. Inventories rise, unemployment tends to fall, and prices tend to rise.
C. Inventories fall, unemployment tends to rise, and prices tend to rise.
D. It is impossible for these two to be unequal.
E. The nation falls into an economic recession.

ANS: D DIF: Hard

33. Which of the following is correct? When actual leakages exceed actual injections, then:
A. Inventories rise, unemployment tends to rise, and prices tend to fall.
B. Inventories rise, unemployment tends to fall, and prices tend to rise.
C. Inventories fall, unemployment tends to rise, and prices tend to rise.
D. It is impossible for these two to be unequal.
E. The nation falls into an economic recession.

ANS: D DIF: Hard

34. Which of the following is correct? When expected supply exceeds expected demand, then:
A. Inventories rise, unemployment tends to rise, and prices tend to fall.
B. Inventories rise, unemployment tends to fall, and prices tend to rise.
C. Inventories fall, unemployment tends to rise, and prices tend to rise.
D. It is impossible for these two to be unequal.
E. The nation's economy expands.

ANS: A DIF: Hard

35. Which of the following is correct? When expected leakages exceed expected injections, then:
A. Inventories rise, unemployment tends to rise, and prices tend to fall.
B. Inventories rise, unemployment tends to fall, and prices tend to rise.
C. Inventories fall, unemployment tends to rise, and prices tend to rise.
D. It is impossible for these two to be unequal.
E. The nation's economy expands.

ANS: A DIF: Hard

36. Which of the following is correct? When actual supply exceeds expected demand, then:
A. Inventories rise, unemployment tends to rise, and prices tend to fall.
B. Inventories rise, unemployment tends to fall, and prices tend to rise.
C. Inventories fall, unemployment tends to rise, and prices tend to rise.
D. It is impossible for these two to be unequal.
E. You are mixing apples and oranges. These two macroeconomic variables should not be compared.

ANS: E DIF: Hard

37. Which of the following is correct? When actual leakages exceeds expected injections, then:
A. Inventories rise, unemployment tends to rise, and prices tend to fall.
B. Inventories rise, unemployment tends to fall, and prices tend to rise.
C. Inventories fall, unemployment tends to rise, and prices tend to rise.
D. It is impossible for these two to be unequal.
E. You are mixing apples and oranges. These two macroeconomic variables should not be compared.

ANS: E DIF: Hard

38. During a recession:
A. Government spending automatically rises and taxes automatically rise.
B. Government spending automatically falls and taxes automatically rise.
C. Government spending and taxes automatically fall.
D. Government spending and taxes do not tend to change.
E. Government spending rises automatically and taxes fall automatically.
F. None of the above.

ANS: E DIF: Hard

39. During a recession:
A. Net exports tend to rise.
B. Consumption tends to rise.
C. Net exports remain unchanged.
D. Businesses tend to invest more in new plant and equipment.
E. Inventories tend to fall as businesses sell them off.

ANS: A DIF: Hard