

Barro

Chapter 2

TRUE/FALSE

1. Nominal GDP measures the euro (dollar, British pound, etc.) value of all goods and services that an economy produces in a particular period of time.

ANS: T PTS: 1 DIF: 1 NAT: Analytic

2. GDP is a complete measure of economic welfare.

ANS: F PTS: 1 DIF: 2 NAT: Analytic

3. GDP ignores welfare changes due to environmental damage.

ANS: T PTS: 1 DIF: 1 NAT: Analytic

4. Value added is the difference between costs of production and the price of a product.

ANS: F PTS: 1 DIF: 2 NAT: Analytic

5. The difference between GDP and NNP is the depreciation of capital.

ANS: T PTS: 1 DIF: 1 NAT: Analytic

MULTIPLE CHOICE

1. Nominal GDP measures the:

- | | |
|---|---|
| a. dollar value of all goods and services produced in an economy at a point in time. | c. dollar value of all goods and services produced in an economy during a specified time period. |
| b. the constant dollar value of all goods and services produced in an economy at a point in time. | d. the constant dollar value of all goods and services produced in an economy during a specified time period. |

ANS: C PTS: 1 DIF: 2 NAT: Analytic

2. Imputed rental income is:

- | | |
|--|---|
| a. the money people receive from renting property. | c. what an owner occupied house would fetch on the market if the owner rented it. |
| b. the money businesses pay for renting property. | d. the money businesses receive from renting property. |

ANS: C PTS: 1 DIF: 2 NAT: Analytic

3. In an economy with two goods, beer and pizza, if pizza costs £10 per pie and beer costs £5 per six pack and if 100 six packs of beer and 200 pizzas are produced in a year, then nominal GDP that year would be:

- | | |
|------------|-----------------------|
| a. £2,000. | c. £1,500. |
| b. £2,500. | d. none of the above. |

ANS: B PTS: 1 DIF: 2 NAT: Analytic

4. In an economy with two goods, burgers and pizza, if pizza costs €15 per pie and burgers costs €5 per burger and if 1000 burger and 200 pizzas are produced in a year, then nominal GDP that year would be:
- a. €24,000.
 - b. €8,000.
 - c. €16,000.
 - d. none of the above.

ANS: B PTS: 1 DIF: 2 NAT: Analytic

5. Real GDP is GDP:
- a. in constant dollars.
 - b. in current dollars.
 - c. that considers income distribution.
 - d. that includes the value of leisure.

ANS: A PTS: 1 DIF: 2 NAT: Analytic

6. Real GDP equal:
- a. nominal GDP times the implicit price level.
 - b. nominal GDP divided by the implicit price level.
 - c. the current dollar value of all goods and services produced in an economy during a particular time period.
 - d. real GDP time the implicit price level.

ANS: B PTS: 1 DIF: 2 NAT: Analytic

7. The implicit price level is:
- a. the ratio of nominal to real GDP.
 - b. the product of real and nominal GDP.
 - c. the ratio of real to nominal GDP
 - d. the difference between real and nominal GDP.

ANS: A PTS: 1 DIF: 2 NAT: Analytic

8. If real GDP is 120 and nominal GDP is 180, then the implicit price level is:
- a. .56.
 - b. 1.5.
 - c. 60.
 - d. 21600.

ANS: B PTS: 1 DIF: 2 NAT: Analytic

9. If real GDP is 200 and nominal GDP is 160, then the implicit price level is:
- a. 0.8
 - b. 1.25
 - c. 40.
 - d. 32000.

ANS: A PTS: 1 DIF: 2 NAT: Analytic

10. GDP does not:
- a. consider changes in the distribution of income.
 - b. include most nonmarket goods.
 - c. assign value to leisure time.
 - d. all of the above.

ANS: D PTS: 1 DIF: 2 NAT: Analytic

11. Personal consumption expenditure includes:
- a. services.
 - b. residential structures.
 - c. imports.
 - d. all of the above.

ANS: A PTS: 1 DIF: 2 NAT: Analytic

12. Gross private domestic expenditure includes:
- a. fixed investment.
 - b. change in business inventory.
 - c. residential structures.
 - d. all of the above.
- ANS: D PTS: 1 DIF: 2 NAT: Analytic
13. Net exports of goods and services equals:
- a. imports times exports.
 - b. exports minus imports.
 - c. imports minus exports.
 - d. all of the above.
- ANS: B PTS: 1 DIF: 2 NAT: Analytic
14. Personal Consumption expenditure includes:
- a. changes in business inventories.
 - b. nondurables.
 - c. imports.
 - d. all of the above.
- ANS: B PTS: 1 DIF: 2 NAT: Analytic
15. Gross private domestic investment includes
- a. durable goods.
 - b. residential structures.
 - c. financial assets.
 - d. all of the above.
- ANS: B PTS: 1 DIF: 2 NAT: Analytic
16. Government purchases include:
- a. state and local government purchases.
 - b. tax receipts.
 - c. federal government debt.
 - d. all of the above.
- ANS: A PTS: 1 DIF: 2 NAT: Analytic

Table 2.1

Category of Expenditure	Trillions of \$
Personal Consumption Expenditure	7.5
Gross Private Domestic Investment	2.2
Government Purchases	2.5
Net Exports of Goods and Services	-1.0
Depreciation of capital	0.5

17. Based on the data in Table 2.1, Gross Domestic Product is:
- a. \$11.7 trillion.
 - b. \$10.7 trillion.
 - c. \$11.2 trillion.
 - d. none of the above.
- ANS: C PTS: 1 DIF: 2 NAT: Analytic
18. Based on the data in Table 2.1, net domestic private investment is:
- a. \$1.7 trillion.
 - b. \$2.7 trillion.
 - c. \$11.0 trillion.
 - d. none of the above.
- ANS: A PTS: 1 DIF: 2 NAT: Analytic
19. Depreciation is:
- a. when the price level falls.
 - c. the capital used up producing this period's

- b. the economy goes into recession. output.
 d. all of the above.
- ANS: C PTS: 1 DIF: 2 NAT: Analytic

Table 2.2

Category of Expenditure	Trillions of €
Durable Goods	1.1
Fixed Investment	1.0
Central Government Purchases	0.9
Exports	1.3
Nondurable Goods	2.6
Nonresidential Structures	1.3
State and Local Government	1.5
Imports	2.0
Services	5.2
Residential Structures	0.8
Changes in Business Inventories	2.0

20. Based on the data in Table 2.2, personal consumption expenditure is:
 a. €3.7 trillion. c. €8.9 trillion.
 b. €9.7 trillion. d. none of the above.
- ANS: C PTS: 1 DIF: 2 NAT: Analytic
21. Based on the data in Table 2.2, gross private investment is:
 a. €1.0 trillion. c. €5.1 trillion.
 b. €4.3 trillion. d. none of the above.
- ANS: C PTS: 1 DIF: 2 NAT: Analytic
22. Based on the data in Table 2.2, government purchases are:
 a. €0.9 trillion. c. €0.6 trillion.
 b. €2.4 trillion. d. none of the above.
- ANS: B PTS: 1 DIF: 2 NAT: Analytic
23. Based on the data in Table 2.2, net exports of goods and services are:
 a. €0.7 trillion. c. -€0.7 trillion.
 b. €3.3 trillion. d. none of the above.
- ANS: C PTS: 1 DIF: 2 NAT: Analytic
24. Based on the data in Table 2.2, gross domestic product is:
 a. €17.7 trillion. c. €19.7 trillion.
 b. €15.7 trillion. d. none of the above.
- ANS: B PTS: 1 DIF: 2 NAT: Analytic
25. Based on the data in Table 2.2, net domestic product is:
 a. €15.7 trillion. c. €19.7 trillion.

- b. €17.7 trillion. d. none of the above.

ANS: D PTS: 1 DIF: 2 NAT: Analytic

26. Economists sometimes use a closed economy model despite the fact of trade with the rest of the world because:

- a. the world as a whole is a closed economy. c. it simplifies the analysis.
b. at least for large countries like the US d. all of the above.
exports and imports have been small compared to GDP.

ANS: D PTS: 1 DIF: 2 NAT: Analytic

27. Economists sometimes use a closed economy model because:

- a. few countries actually trade with others. c. exports and imports have no effect on the economy.
b. it simplifies the analysis. d. all of the above.

ANS: B PTS: 1 DIF: 2 NAT: Analytic

Table 2.3

Type of Income	Trillions of £
Compensation of employees	7.1
Proprietor's income	0.9
Rental income of persons	0.1
Corporate profits	1.4
Net interest	0.5
Taxes on production	0.9
Subsidies	0.1
Business transfers	0.1
Surplus of government enterprises	-0.1

28. Based on the data in Table 2.3, national income is:

- a. £7.1 trillion. c. £11.0 trillion.
b. £10.8 trillion. d. none of the above.

ANS: B PTS: 1 DIF: 2 NAT: Analytic

29. Taxes on production include:

- a. excise taxes. c. estate taxes.
b. income taxes. d. all of the above.

ANS: A PTS: 1 DIF: 3 NAT: Analytic

30. National income includes:

- a. corporate taxes c. corporate profits.
b. corporate assets d. all of the above.

ANS: C PTS: 1 DIF: 2 NAT: Analytic

31. National income and GDP diverge in practice because of:

- a. receipts and payments involving the rest of the world. c. taxes

b. subsidies.

d. all of the above.

ANS: A

PTS: 1

DIF: 2

NAT: Analytic

32. National income includes:

a. rental income of persons.

c. corporate profits.

b. net interest.

d. all of the above.

ANS: D

PTS: 1

DIF: 2

NAT: Analytic

33. National income and GDP diverge in practice because of:

a. subsidies.

c. taxes.

b. depreciation of capital.

d. all of the above.

ANS: B

PTS: 1

DIF: 2

NAT: Analytic

Table 2.4

Type of Product or Income	Trillions of ¥
Gross domestic product (GDP)	12.5
Income receipts from the rest of the world	0.5
Depreciation of the capital stock	1.6
Corporate profits, taxes on production, contributions for social insurance, net interest, business transfers, surplus of government enterprises	3.6
Personal taxes	1.2
Income payments to the rest of the world	0.4
Personal income receipts on assets and personal transfer payments	3.0

34. Base on the data in Table 2.4, gross national product (GNP) is:

a. ¥11.4 trillion.

c. ¥12.5 trillion.

b. ¥12.6 trillion.

d. none of the above.

ANS: B

PTS: 1

DIF: 2

NAT: Analytic

35. Based on the data in Table 2.4, net national product is:

a. ¥11.0 trillion.

c. ¥12.6 trillion.

b. ¥11.4 trillion.

d. none of the above.

ANS: A

PTS: 1

DIF: 2

NAT: Analytic

36. Based on the data in Table 2.4, national income is:

a. ¥7.4 trillion.

c. ¥8.9 trillion.

b. ¥11.0 trillion.

d. none of the above.

ANS: B

PTS: 1

DIF: 3

NAT: Analytic

37. Based on the data in Table 2.4, personal income is:

a. ¥10.2 trillion.

c. ¥11.8 trillion.

b. ¥10.4 trillion.

d. none of the above.

ANS: B

PTS: 1

DIF: 2

NAT: Analytic

38. Based on the data in Table 2.4, disposable personal income is:

- a. ¥10 trillion.
- b. ¥7.4 trillion.
- c. ¥9.2 trillion.
- d. none of the above.

ANS: C PTS: 1 DIF: 2 NAT: Analytic

39. Gross national product (GNP) is gross domestic product (GDP):
- a. less income receipts from the rest of the world less income payments to the rest of the world.
 - b. less income receipts from the rest of the world plus income payments to the rest of the world.
 - c. plus income receipts from the rest of the world less income payments to the rest of the world.
 - d. less income receipts from the rest of the world less income payments to the rest of the world.

ANS: C PTS: 1 DIF: 2 NAT: Analytic

40. Net national product (NNP) is gross national product (GNP):
- a. plus depreciation of capital.
 - b. less depreciation of capital.
 - c. plus personal taxes.
 - d. less personal taxes.

ANS: B PTS: 1 DIF: 2 NAT: Analytic

41. Personal income is national income:
- a. less corporate profits, taxes on production, contributions for social insurance, net interest, business transfers and surplus of government enterprises plus personal income receipts on assets and personal transfer payments.
 - b. less corporate profits, taxes on production, contributions for social insurance, net interest, business transfers, surplus of government enterprises, personal income receipts on assets and personal transfer payments.
 - c. plus corporate profits, taxes on production, contributions for social insurance, net interest, business transfers and surplus of government enterprises less personal income receipts on assets and personal transfer payments.
 - d. plus corporate profits, taxes on production, contributions for social insurance, net interest, business transfers, surplus of government enterprises, personal income receipts on assets and personal transfer payments.

ANS: A PTS: 1 DIF: 2 NAT: Analytic

42. Disposable personal income is personal income:
- a. plus personal taxes.
 - b. less corporate profits, taxes on production, contributions for social insurance, net interest, business transfers and surplus of government enterprises plus personal income receipts on assets and personal transfer payments.
 - c. less personal taxes.
 - d. plus corporate profits, taxes on production, contributions for social insurance, net interest, business transfers and surplus of government enterprises less personal income receipts on assets and personal transfer payments.

ANS: C PTS: 1 DIF: 2 NAT: Analytic

43. Subtracted from national income to get personal income is:
- a. depreciation of capital.
 - b. corporate profits.
 - c. personal transfer payments.
 - d. all of the above.

ANS: B PTS: 1 DIF: 2 NAT: Analytic

44. Added to national income to get personal income is:
- a. personal income receipts on assets.
 - c. contributions for social insurance.

- b. net interest. d. all of that above.

ANS: A PTS: 1 DIF: 2 NAT: Analytic

45. Subtracted from national income to get personal income is:

- a. net interest. c. taxes on production.
b. business transfers. d. all of the above.

ANS: D PTS: 1 DIF: 2 NAT: Analytic

46. Subtracted from personal income to get disposable personal income is:

- a. personal taxes. c. personal income receipts on assets.
b. contributions for social insurance. d. all of the above.

ANS: A PTS: 1 DIF: 2 NAT: Analytic

47. The consumer price index (CPI):

- a. cannot be constructed as a chained index. c. is updated whenever new goods are introduced.
b. does not adjust for quality changes in goods. d. fully accounts for substitution to cheaper goods.

ANS: B PTS: 1 DIF: 2 NAT: Analytic

48. The consumer price index is biased because it cannot account for:

- a. quality changes in goods. c. people substituting to cheaper goods.
b. new goods. d. all of the above.

ANS: D PTS: 1 DIF: 2 NAT: Analytic

49. The consumer price index does not account for:

- a. the introduction of new goods. c. goods whose prices fall.
b. goods whose prices rise. d. all of the above.

ANS: A PTS: 1 DIF: 2 NAT: Analytic

50. The consumer price index is constructed from:

- a. tax data. c. data from wholesale producers.
b. survey data. d. all of the above.

ANS: B PTS: 1 DIF: 1 NAT: Analytic

SHORT ANSWER

1. What is nominal gross domestic product (GDP)?

ANS:

Nominal measure the dollar or other currency value of all good and services that an economy produces during a specified period of time.

PTS: 1 DIF: 1 NAT: Analytic

2. What is real GDP and what makes it “real?”

ANS:

Real GDP is GDP in constant dollars. It is “real” in the sense that is evaluated using prices of a base year. That means that any growth in real GDP from the base year is real growth and not caused by increase in prices.

PTS: 1 DIF: 2 NAT: Analytic

3. What is the relationship between nominal and real GDP?

ANS:

Nominal GDP divided by the implicit price level equals real GDP.

PTS: 1 DIF: 2 NAT: Analytic

4. What parts of welfare does real GDP not measure?

ANS:

Real GDP does not consider changes in the distribution of income, nonmarket goods including illegal transactions in the underground economy, the value of leisure time nor environmental damage.

PTS: 1 DIF: 2 NAT: Analytic

5. Why might the consumer price index (CPI) overstate inflation?

ANS:

There are several biases associate with the CPI. They include the quality changes, substitution bias which can partially be corrected by using a chain index and the introduction of new goods.

PTS: 1 DIF: 2 NAT: Analytic