

Macroeconomics, 12e (Gordon)

Chapter 2 The Measurement of Income, Prices, and Unemployment

2.1 Why We Care About Income

- 1) Job openings are plentiful when the
- A) actual real GDP is above the natural real GDP.
 - B) natural real GDP is above the actual real GDP.
 - C) natural real GDP is increasing rapidly.
 - D) None of the above.

Answer: A

Question Status: Previous Edition

- 2) The real income per capita is a measure of the
- A) well-being of every individual in the nation.
 - B) well-being of the average individual in the nation.
 - C) well-being of the average employed person in the nation.
 - D) total well-being of the nation.

Answer: B

Question Status: Previous Edition

2.2 The Circular Flow of Income and Expenditure

- 1) GDP can be measured by the
- A) total value of all sales in the economy.
 - B) total market value of final goods and services produced in the economy.
 - C) total value of all intermediate goods produced in the economy.
 - D) net national product plus investment.

Answer: B

Question Status: Previous Edition

- 2) Assume a simple economy without a government and that saving and borrowing behavior is never observed. Then the value of
- A) production is equal to income.
 - B) expenditures is less than the value of production.
 - C) production is less than the value of expenditures.
 - D) production is less than income.

Answer: A

Question Status: Previous Edition

- 3) From the last five recessions, the mildest two were
- A) 1975 and 2008-09 recessions.
 - B) 1981-82 and 2008-09 recessions.
 - C) 1990-91 and 2001 recessions.
 - D) 1975 and 2001 recessions.

Answer: C

Question Status: New

- 4) The circular flow of income describes the
- A) flow of income from domestic firms to the nonproduction sector and back again.
 - B) amount of money in the economy.
 - C) sum of all injections into the economy.
 - D) sum of all withdrawals from the economy.

Answer: A

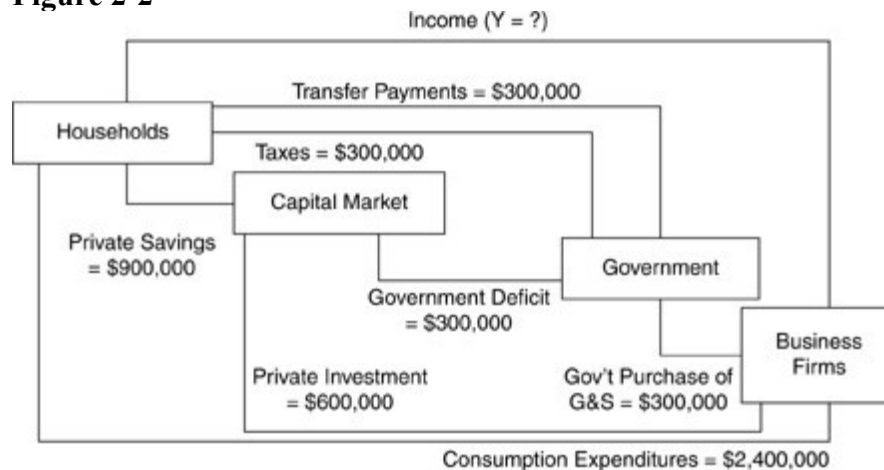
Question Status: Previous Edition

- 5) Changes in business inventories
- A) are included in gross but not in net investment.
 - B) can either be positive or negative.
 - C) are not included in GDP because they are not sold to anyone.
 - D) are only partly included in GDP because part of these are holdings of intermediate goods.

Answer: B

Question Status: Previous Edition

Figure 2-2



- 6) Employing the data from Figure 2-2, income Y is equal to

- A) \$3,000,000.
- B) \$3,300,000.
- C) \$3,600,000.
- D) \$5,100,000.

Answer: B

Question Status: Previous Edition

- 7) Negative net exports represent reduced investment because
- A) payments for imports will be used by foreigners to buy domestic goods in the future.
 - B) payments for exports will be used by foreigners to buy domestic goods in the future.
 - C) payments for imports will be used by U.S. citizens to buy domestic goods in the future.
 - D) None of the above.

Answer: A

Question Status: Previous Edition

- 8) When the dollar strengthens,
A) exports will increase and U.S. consumers benefit.
B) imports will increase and U.S. consumers benefit.
C) exports will decrease and U.S. exporters benefit.
D) exports will increase and U.S. exporters gain.

Answer: B

Question Status: Previous Edition

- 9) When the dollar depreciates,
A) exports will increase and U.S. consumers benefit.
B) imports will increase and U.S. consumers benefit.
C) exports will decrease and U.S. exporters benefit.
D) exports will increase and U.S. exporters gain.

Answer: D

Question Status: Previous Edition

10) In the simple circular flow model containing just households and business firms, all income is received by households in exchange for

- A) consumer expenditures.
B) wages.
C) labor services.
D) product.

Answer: C

Question Status: Previous Edition

11) In the simple circular flow model containing just households and business firms, the entire product flows to _____ in exchange for _____.

- A) business firms, labor services
B) business firms, wages
C) households, consumer expenditures
D) households, labor services

Answer: C

Question Status: Previous Edition

12) Which of the following is NOT a "flow" variable?

- A) government debt
B) consumption expenditure
C) labor services
D) income

Answer: A

Question Status: Previous Edition

13) In the second circular-flow model of Chapter 2, households have two uses for their total income:

- A) consumption and investment.
- B) consumption and saving.
- C) saving and investment.
- D) saving and payment of taxes.
- E) consumption and payment of taxes.

Answer: B

Question Status: Previous Edition

14) The condition in circular-flow models whereby firms purchase all the goods not purchased by households is that

- A) inventory investment is zero.
- B) saving is zero.
- C) fixed investment is zero.
- D) consumption equals investment.
- E) investment equals saving.

Answer: E

Question Status: Previous Edition

15) An individual buys shares in a mutual fund, which uses the proceeds to buy corporate stocks and bonds. This is part of the process by which

- A) total product becomes unequal to total expenditures.
- B) firms release goods to make them available to consumers.
- C) firms obtain investment goods that consumers relinquish claims to.
- D) consumers make an "inventory investment" in goods to be purchased in the future.

Answer: C

Question Status: Previous Edition

16) "Net exports" is defined as

- A) GDP minus imports.
- B) exports plus imports.
- C) GDP minus exports.
- D) exports minus imports.

Answer: D

Question Status: Previous Edition

17) With positive net exports, a nation is a net _____, and thus has a _____ "net foreign investment."

- A) seller of assets to foreigners, positive
- B) seller of assets to foreigners, negative
- C) buyer of foreign assets, positive
- D) buyer of foreign assets, negative

Answer: C

Question Status: Previous Edition

18) The cars produced by Toyota in its factory in Kentucky _____ in U.S. GDP and _____ in U.S. GNP.

- A) count, count
- B) count, do not count
- C) do not count, count
- D) do not count, do not count

Answer: B

Question Status: New

19) In a circular-flow diagram, the saving and taxation "pipes" are carrying

- A) injections to firms.
- B) injections to households.
- C) leakages from firms.
- D) leakages from households.

Answer: D

Question Status: Previous Edition

2.3 What GDP Is, and What GDP Is Not

1) The value of steel sold to an automobile producer is _____ directly included in the GDP because _____.

- A) always; it was produced during the current period
- B) never; to do so is to double count the value of the steel
- C) sometimes; the automobile may not be sold in the current period
- D) sometimes; the steel is sometimes not resold in the current period

Answer: D

Question Status: Previous Edition

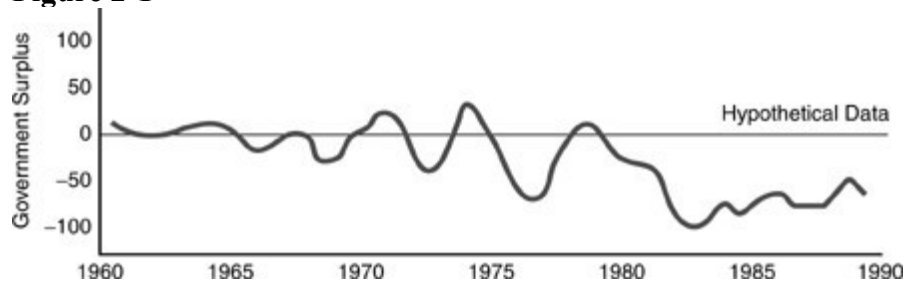
2) Which of the following is NOT an injection?

- A) The state of Illinois builds a new courthouse.
- B) Kansas farmers sell 1 million bushels of wheat to Russia
- C) The Smithsonian Institute purchases Chris Evert Lloyd's tennis racket.
- D) An accountant purchases a new personal computer for use in his office.

Answer: C

Question Status: Previous Edition

Figure 2-1



3) Assuming a closed economy (i.e., $NX = 0$) the data in Figure 2-1 suggest that for each year after 1980

- A) private saving could have been either positive or negative.
- B) private saving was negative.
- C) private saving was positive.
- D) private saving equaled zero.

Answer: C

Question Status: Previous Edition

4) Which of the following government outlays would be classified as a transfer payment?

- A) payments of veterans benefits under the GI bill
- B) interest on the federal debt
- C) subsidies to gold-mining firms
- D) all of these

Answer: D

Question Status: Previous Edition

5) Suppose that steel produced this year is used to produce a car sold next year. The value of the steel _____ included in GDP this year as _____.

- A) is; an intermediate good
- B) is not; an intermediate good
- C) is; an adjustment to inventories
- D) is not; an adjustment to inventories

Answer: C

Question Status: Previous Edition

6) An intermediate good is

- A) always counted when measuring GDP because it doesn't represent time spent in production of a final good or service.
- B) a good whose value is of neither a high grade nor a low grade.
- C) a good that is sold to the government and then redistributed to the poor.
- D) any good that is resold by its purchaser rather than used as is.

Answer: D

Question Status: Previous Edition

7) Which of the following would be included in total final product (GDP)?

- A) Social Security
- B) unemployment benefits.
- C) U.S. semiconductors that are bought by a firm in Hong Kong
- D) product produced in Canada that is bought by a firm in the U.S.

Answer: C

Question Status: New

8) Which of the following components of the current account are included in GDP?

- A) net exports
- B) net foreign investment income
- C) net transfer payments sent to foreigners
- D) all of the above

Answer: A

Question Status: Previous Edition

9) In calculating GDP, "transfer payments" are

- A) included because they are re-valuations of existing wealth.
- B) excluded because no goods or services were produced in exchange for them.
- C) included because they are payments for labor services.
- D) excluded because used goods already counted the year they were produced.

Answer: B

Question Status: Previous Edition

10) A restaurant purchases a package of sandwich buns for 50 cents. The buns are _____ good in this case, and thus its purchase _____ a transaction that is included in GDP.

- A) a final, is
- B) a final, is not
- C) an intermediate, is
- D) an intermediate, is not

Answer: D

Question Status: Previous Edition

11) A family purchases a package of sandwich buns at a supermarket. Are those buns considered a "final" good?

- A) No, because they are an intermediate ingredient in the actual final good: sandwiches.
- B) Yes, if the family eats them and does not sell the sandwiches made from them.
- C) No, because the supermarket bought the finished buns, so they are "used" goods by the time the family buys them.
- D) Yes, for so long as it is sold on the market it is a final good.

Answer: B

Question Status: Previous Edition

12) A farmer sells raw milk for 50 cents to a dairy, who sells cheese made from it for \$1.50 to a grocery wholesaler, who sells it for \$1.90 to a supermarket, who sells it to the final consumer for \$2.19. These transactions increase the GDP by

- A) $\$0.50 + \$1.00 + \$0.40 + \$0.29 = \$2.19$.
- B) $\$0.50 + \$1.00 + \$1.90 + \$2.19 = \$5.59$.
- C) $\$0.50 + \$1.00 = \$1.50$.
- D) $\$2.19 - \$1.50 = \$0.69$.
- E) $\$2.19 - \$0.50 = \$1.69$.

Answer: A

Question Status: Previous Edition

13) Adding up all transactions in the economy _____ "double counting" and thus produces _____ measure of GDP.

- A) avoids, a proper
- B) avoids, an improper
- C) results in, a proper
- D) results in, an improper

Answer: D

Question Status: Previous Edition

2.4 Components of Expenditure

1) It is important to distinguish investment expenditures from consumption expenditures because

- A) households invest and business firms consume.
- B) foreign firms invest and domestic firms consume
- C) investment, not consumption, increases the natural real GDP.
- D) consumption, not investment, increases natural real GDP.

Answer: C

Question Status: New

2) By definition, when the economy is in equilibrium it must be true that

- A) leakages equal injections.
- B) saving equals investment.
- C) government spending equals taxes.
- D) exports equal imports.

Answer: A

Question Status: Previous Edition

3) The difference between gross investment and net investment is

- A) equal to the difference between GDP and disposable income.
- B) equal to the government deficit.
- C) equal to capital consumption allowances.
- D) equal to the difference between gross and net exports.

Answer: C

Question Status: Previous Edition

4) Which of the following is NOT a leakage?

- A) import of a Toyota
- B) export of a Cadillac
- C) personal saving
- D) indirect business taxes

Answer: B

Question Status: Previous Edition

Table 2-1

Item	Billions of Dollars
a. Personal Consumption	1970
b. Capital Consumption Allowance	360
c. Personal Interest Payments	60
d. Indirect Business Taxes	260
e. Corporate Dividends	80
f. Federal Purchases of Goods and Services	300
g. Inventory Change	40
h. Social Security Contributions	220
i. Nonresidential Fixed Investment	240
j. Exports	300
k. Personal Taxes	400
l. After-tax Corporate Profits	180
m. Government Transfer and Interest Payments	440
n. Corporate Income Taxes	90
o. Import	280
p. State and Local Purchases of Goods and Services	340
q. Residential Fixed Investment	140

5) Refer to above Table 2-1. What is the level of Gross Domestic Product?

- A) 2690
- B) 3050
- C) 2430
- D) 3010

Answer: B

Question Status: Previous Edition

6) Refer to above Table 2-1. What is the level of National Income?

- A) 2630
- B) 2420
- C) 2660
- D) 2430

Answer: D

Question Status: Previous Edition

7) Refer to above Table 2-1. What is the level of Net Private Domestic Investment?

- A) 420
- B) 780
- C) 380
- D) 340

Answer: A

Question Status: Previous Edition

8) Refer to above Table 2-1. What is the level of Corporate Profits?

- A) 260
- B) 180
- C) 270
- D) 170

Answer: C

Question Status: Previous Edition

9) Refer to above Table 2-1. What is the level of Disposable Personal Income?

- A) 2520
- B) 1900
- C) 2200
- D) 2120

Answer: D

Question Status: Previous Edition

10) Refer to above Table 2-1. What is the level of Personal Saving?

- A) 100
- B) 90
- C) 80
- D) 130

Answer: B

Question Status: Previous Edition

11) Refer to above Table 2-1. What is the total amount of leakages?

- A) 530
- B) 1080
- C) 970
- D) 550

Answer: B

Question Status: Previous Edition

12) Positive net exports are treated like domestic investment in the national income accounts because they are

- A) always part of inventories.
- B) fixed assets not intended for resale.
- C) they represent future flows of real income.
- D) not intended for resale.

Answer: B

Question Status: Previous Edition

13) Total expenditures as discussed by Gordon are

- A) $C + I + G + M$.
- B) $C + S + T + X$.
- C) $C + I + S + X$.
- D) $C + I + G + X - M$.

Answer: D

Question Status: Previous Edition

14) The final goods businesses keep for themselves are called

- A) assets.
- B) savings.
- C) investment.
- D) sunk costs.
- E) intermediate goods.

Answer: C

Question Status: Previous Edition

15) Cans of soup purchased by supermarkets but not sold to individuals in the current period

- A) are considered intermediate goods, yet still count in the GDP.
- B) are considered intermediate goods, thus do not count in the GDP.
- C) are considered investment goods and do count in the GDP.
- D) are considered investment goods and thus do not count in the GDP.
- E) are considered consumption goods but do not yet count in the GDP.

Answer: C

Question Status: Previous Edition

16) This national income accounting rule guarantees that total product exactly equals total expenditure on that product:

- A) changes in inventories count as expenditures.
- B) changes in inventories do not count as expenditures.
- C) depreciation of capital is subtracted from investment.
- D) total product is the sum of values added.

Answer: A

Question Status: Previous Edition

- 17) Which of the following is included in the GDP?
- A) the current services flowing from the housing stock
 - B) the estimated value of drugs sold illegally
 - C) the estimated value of leisure time
 - D) transfer payments such as Social Security and veterans' benefits
 - E) private purchases of used assets

Answer: A

Question Status: Previous Edition

2.5 The "Magic" Equation and the Twin Deficits

- 1) Which of the following is NOT one of the ways a budget surplus can be used?
- A) to allow private saving to fall without any need for a decline in total investment
 - B) to stimulate domestic investment
 - C) to reduce foreign investment
 - D) to increase the amount of borrowing from foreigners

Answer: D

Question Status: Previous Edition

- 2) Which of the following is a way to finance a budget deficit?
- A) increased private saving
 - B) decreased domestic investment
 - C) decreased foreign investment
 - D) all of the above

Answer: D

Question Status: Previous Edition

- 3) In the national income accounting identity $Q = C + S + T$, T stands for
- A) taxes.
 - B) transfers.
 - C) taxes minus transfers.
 - D) taxes plus transfers.

Answer: C

Question Status: Previous Edition

- 4) A crucial national income accounting identity has $(S + T)$ equal to
- A) $I + G - NX$.
 - B) $I + G + F$.
 - C) $I + NX$.
 - D) $G + F$.
 - E) $I + G + NX$.

Answer: E

Question Status: Previous Edition

- 5) In national income accounting, $(S + T)$ is
- A) the portion of total income not consumed.
 - B) net national product.
 - C) the methods of financing the government deficit.
 - D) the final output firms absorb as investment.

Answer: A

Question Status: Previous Edition

- 6) The government budget deficit, _____, is _____ when saving exceeds domestic investment.
- A) $(T - G)$, created
 - B) $(T - G)$, partially financed
 - C) $(G - T)$, created
 - D) $(G - T)$, partially financed

Answer: B

Question Status: Previous Edition

- 7) Suppose that in our economy: $G = 1100$, $T = 900$, $S = 140$, and $NX = -90$. How much of our final product is left for domestic firms to purchase for themselves?

- A) 110
- B) 200
- C) 230
- D) 50
- E) 30

Answer: E

Question Status: Previous Edition

- 8) Help in financing our federal budget deficit comes from a _____ amount of net exports, which is called _____.

- A) negative, net foreign investment
- B) negative, foreign borrowing
- C) positive, net foreign investment
- D) positive, foreign borrowing

Answer: B

Question Status: Previous Edition

- 9) If the government of Country Z is running a budget deficit and net exports are zero, then

- A) investment is greater than saving.
- B) investment and saving are equal.
- C) saving is greater than investment.
- D) none of the above.

Answer: C

Question Status: Previous Edition

- 10) The term "twin deficits" refers to
- A) government budget and trade deficits.
 - B) saving and investment deficits.
 - C) exports and imports deficits.
 - D) production and expenditure deficit.

Answer: A

Question Status: Previous Edition

2.6 Where Does Household Income Come From?

- 1) Which of the following sets of categories correctly describes the categories of nonconsumption injections?

- A) foreign imports, private domestic investment, government transfer payments
- B) capital consumption allowances, government transfer payments, net exports
- C) net exports, inventory accumulation, government transfer payments
- D) government purchases of goods and services, net exports, private domestic investment

Answer: D

Question Status: Previous Edition

- 2) In order to determine personal income, what adjustments have to be made to national income?

- A) subtract undistributed corporate profits, corporate income tax, social security taxes, and then add government transfers and private interest payments
- B) subtract undistributed corporate profits, social security taxes, government transfers, and then add private interest payments
- C) subtract undistributed corporate profits, corporate consumption allowance, corporate income tax, social security tax and then add government transfers and private interest payments
- D) subtract corporate income tax and social security taxes and then add corporate dividends, government transfers, and private interest payments

Answer: A

Question Status: Previous Edition

- 3) From the perspective of households the uses of income are

- A) taxes, saving, consumption of domestically produced and imported goods.
- B) taxes, investment, consumption of domestically produced and imported goods.
- C) taxes, saving, consumption, exports, and imports.
- D) None of the above.

Answer: A

Question Status: Previous Edition

- 4) The leakage and injections approach implies that deficit spending by the government must be financed by

- A) private investment less private savings plus net exports.
- B) private saving less private investment plus net exports.
- C) the trade deficit must always offset the government deficit.
- D) B and C.

Answer: A

Question Status: Previous Edition

- 5) The leakage and injections approach implies that a government deficit is financed by
- A) private saving less private investment plus net exports.
 - B) private investment less private saving plus net exports.
 - C) the trade deficit must always offset the government deficit.
 - D) None of the above.

Answer: B

Question Status: Previous Edition

- 6) Actual real GDP this year is expected to exceed last year's by two percent, while the annual growth rate of natural real GDP is three percent. This is enough to lead us to expect that this year's unemployment rate will be
- A) below last year's and below the natural rate of unemployment.
 - B) below last year's but still above the natural rate of unemployment.
 - C) below last year's.
 - D) above last year's.
 - E) above last year's and above the natural rate of unemployment.

Answer: D

Question Status: Previous Edition

- 7) Suppose exports and imports both rise by \$1. GDP
- A) rises by \$2.
 - B) rises by \$1.
 - C) remains unchanged.
 - D) falls by \$1.
 - E) falls by \$2.

Answer: C

Question Status: Previous Edition

- 8) $(C + S + T)$ most closely approximates
- A) personal income.
 - B) personal disposable income.
 - C) national income.
 - D) net national product.
 - E) gross national product.

Answer: A

Question Status: Previous Edition

- 9) Economic magnitudes measured at the prices actually paid are referred to as _____ magnitudes.
- A) "real"
 - B) "actual"
 - C) "nominal"
 - D) "unadjusted"
 - E) "gross"

Answer: C

Question Status: Previous Edition

2.7 Nominal GDP, Real GDP, and the GDP Deflator

- 1) If nominal GDP increases, which of the following will always take place?
- A) Output will have increased but prices will have fallen or remained the same.
 - B) Prices will have increased but output will have fallen or remained the same.
 - C) Both output and prices will have increased.
 - D) none of the above

Answer: D

Question Status: Previous Edition

- 2) If real GDP has increased, which of the following statements is always true?
- A) Nominal GDP has increased.
 - B) Output has increased.
 - C) Prices have remained the same.
 - D) Output might have decreased if prices have risen enough.

Answer: B

Question Status: Previous Edition

- 3) Suppose that nominal GDP were \$1200 billion in 1990 and \$2000 billion in 1995. The implicit GDP deflator was 1.00 in 1990 and 1.50 in 1995. From this we can infer that, between 1990 and 1995

- A) nominal GDP rose by 33%.
- B) prices rose by 66%.
- C) real GDP remained constant.
- D) real GDP rose by about 11%.

Answer: D

Question Status: Previous Edition

- 4) If real GDP for a given year is \$2400 billion and nominal GDP is \$2400,
- A) this year is the base year for the GDP deflator.
 - B) the GDP deflator for this year is 1.25.
 - C) the GDP deflator for this year is 0.8.
 - D) the GDP deflator for this year is 1.10.

Answer: A

Question Status: Previous Edition

- 5) To measure productivity in an economy, we compute the actual real GDP and then divide it by
- A) the number of years over which it was produced.
 - B) the amount of labor that went into producing it.
 - C) the capital stock in existence at the time.
 - D) the value of the capital stock that was used up in the process of production.
 - E) the natural real GDP in the same period.

Answer: B

Question Status: Previous Edition

- 6) We go from Gross to Net Domestic Product by
- A) adding depreciation to GDP.
 - B) subtracting depreciation from GDP.
 - C) adding indirect business taxes to GDP.
 - D) subtracting indirect business taxes from GDP.

Answer: B

Question Status: Previous Edition

- 7) We go from personal income to personal disposable income by
- A) subtracting undistributed profits.
 - B) adding transfer payments.
 - C) subtracting personal income taxes.
 - D) subtracting depreciation.
 - E) subtracting personal saving.

Answer: C

Question Status: Previous Edition

- 8) A change in nominal GDP sums up changes in
- A) prices alone.
 - B) physical production alone.
 - C) physical production and hours of production time.
 - D) physical production and prices.

Answer: D

Question Status: Previous Edition

- 9) A change in real GDP sums up changes in
- A) prices alone.
 - B) physical production alone.
 - C) physical production minus changes in price.
 - D) physical production and prices.

Answer: B

Question Status: Previous Edition

- 10) The current official "base year" is
- A) 2000.
 - B) 1992.
 - C) 1980.
 - D) 1972.

Answer: A

Question Status: Previous Edition

Table 2-2

	Year 1		Year 2	
	Quantity	Price	Quantity	Price
Apples	100	\$0.05	130	\$0.06
Peaches	300	\$0.03	270	\$0.04

11) Refer to above Table 2-2. What is the nominal GDP in year 2?

- A) \$18.60
- B) \$14.60
- C) \$18.00
- D) 400 units

Answer: A

Question Status: Previous Edition

12) Refer to above Table 2-2. What are the constant-dollar expenditures in years 1 and 2 at fixed year 1 prices?

- A) \$5.00, \$7.80
- B) \$14.00, \$14.60
- C) \$18.00, \$18.60
- D) \$9.00, \$10.80

Answer: B

Question Status: Previous Edition

13) Refer to above Table 2-2. What are the constant-dollar expenditures in years 1 and 2 at fixed year 2 prices?

- A) \$14.00, \$14.60
- B) \$7.90, \$13.50
- C) \$18.00, \$18.60
- D) \$12.80, \$19.80

Answer: C

Question Status: Previous Edition

14) Refer to above Table 2-2. What is the increase in real GDP between years 1 and 2 at fixed year 1 prices?

- A) 4.3%
- B) 3.3%
- C) 2.5%
- D) 1.9%

Answer: A

Question Status: Previous Edition

15) Refer to above Table 2-2. What is the increase in real GDP between years 1 and 2 at fixed year 2 prices?

- A) 2.1%
- B) 5.1%
- C) 4.4%
- D) 3.3%

Answer: D

Question Status: Previous Edition

16) Refer to above Table 2-2. Choosing the prices of year 2 gives a _____ increase in real GDP because year 2 prices place a _____ valuation on quantities that have increased _____ rapidly.

- A) lower, higher, least
- B) higher, lower, most
- C) higher, higher, least
- D) lower, lower, most

Answer: D

Question Status: Previous Edition

17) Refer to above Table 2-2. The geometric average of the increase in real GDP between year 1 and year 2 is

- A) 3.1%.
- B) 3.2%.
- C) 3.3%.
- D) 3.8%.

Answer: D

Question Status: Previous Edition

18) Refer to above Table 2-2. The chain-weighted real GDP for year 2 is

- A) \$14.53.
- B) \$14.49.
- C) \$14.44.
- D) \$16.61.

Answer: A

Question Status: Previous Edition

19) Refer to above Table 2-2. The implicit GDP deflator for year 2 is

- A) 1.284.
- B) 1.432.
- C) 1.101.
- D) 1.334.

Answer: A

Question Status: Previous Edition

20) Refer to above Table 2-2. The chain-weighted GDP deflator for year 2 is

- A) 1.313.
- B) 1.211.
- C) 1.324.
- D) 1.280.

Answer: D

Question Status: Previous Edition

21) If chain-weighted increases in real GDP for 2002-03, 2003-04, 2004-05, 2005-06, and 2006-07 are 5%, 4%, 2%, 1%, and 3% respectively, and nominal GDP in the 2002 base year is \$6244.4 billion, then chain-weighted real GDP for 2007 is

- A) \$6987.02 billion.
- B) \$7,181.06 billion.
- C) \$7235.6 billion.
- D) \$7239.0 billion.

Answer: C

Question Status: Previous Edition

22) When real GDP is below natural real GDP, the unemployment rate is

- A) rising.
- B) above the average unemployment rate.
- C) falling.
- D) below the average unemployment rate.

Answer: A

Question Status: Previous Edition

2.8 Measuring Unemployment

1) The unemployment rate is a good measure of the social welfare or social distress because

- A) it includes discouraged workers.
- B) it distinguishes between part-time and full-time job seekers.
- C) it measures the "importance" of a job to each worker.
- D) None of the above.

Answer: D

Question Status: Previous Edition

2) The measured unemployment rate will be understated when

- A) unemployed workers become discouraged and drop out of the labor market.
- B) unemployed people that are not actively looking for a job are not counted as part of the labor force
- C) people pretend to be looking for a job
- D) All of these.

Answer: A

Question Status: New

3) Indicate which of the following individuals would be included in the labor force as defined by the Census Bureau.

- A) a teenager looking for a part-time job
- B) a man waiting for recall from a layoff
- C) a woman who has accepted a new job but has not yet begun working
- D) All of the above would be included in the labor force.

Answer: D

Question Status: Previous Edition

4) Unemployment is referred to as a lagging indicator because

- A) it tends to stay high for many months after output stops declining during a recession.
- B) reports on unemployment statistics tend to lag behind reports on inflation statistics.
- C) it takes time to collect information regarding unemployed individuals..
- D) it indicates economic activities from the year before.

Answer: A

Question Status: New

5) A survey of 200,000 people finds 76,300 "employed," 6,640 "unemployed," and the remaining 117,060 "not in the labor force." What is the unemployment rate derived from these numbers?

- A) 8.7 percent
- B) 3.3 percent
- C) 8.0 percent
- D) 5.7 percent

Answer: C

Question Status: Previous Edition

6) Official unemployment statistics in the United States are derived from a monthly government survey of approximately _____ households.

- A) 300
- B) 2000
- C) 60,000
- D) 420,000

Answer: C

Question Status: Previous Edition

7) Ann is waiting to be recalled after a layoff. Bill also has no job at the moment and is not searching for one. Who is officially "unemployed"?

- A) Ann
- B) Bill
- C) Ann and Bill
- D) neither Ann nor Bill

Answer: A

Question Status: Previous Edition

8) Claire works fifteen hours a week at a dry cleaning shop. Dustin is retired and living in a retirement home. Who is officially "unemployed"?

- A) Claire
- B) Dustin
- C) Claire and Dustin
- D) neither Claire nor Dustin

Answer: D

Question Status: Previous Edition

9) Suppose the Bureau of Labor Statistics interviews 194,000 people in its monthly survey: 91,300 are not in the labor force, 94,000 are employed, 6650 are unemployed, and 1,150 are in the armed forces. What is the unemployment rate the BLS announces?

- A) 4.95 percent
- B) 3.94 percent
- C) 7.0 percent
- D) 6.55 percent
- E) 6.48 percent

Answer: D

Question Status: Previous Edition

10) Suppose the Bureau of Labor Statistics interviews 196,700 people in its monthly survey; 94,500 are not in the labor force, 91,150 are employed, 8,870 are unemployed, and 2,180 are in the armed forces. What is the unemployment rate the BLS announces?

- A) 8.87 percent
- B) 9.73 percent
- C) 9.39 percent
- D) 4.51 percent
- E) 10.81 percent

Answer: A

Question Status: Previous Edition

11) One of the shortcomings of the government's method of measuring unemployment tends to make the official unemployment rate an overestimate of the unemployment problem:

- A) people working less than twenty hours a week are counted as unemployed.
- B) people seeking part-time jobs are counted as fully unemployed.
- C) people who have given up looking for work are counted as fully unemployed.
- D) "discouraged workers" aren't counted as unemployed.

Answer: B

Question Status: Previous Edition

12) "Discouraged workers" are officially considered _____ the labor force and _____.

- A) in, unemployed
- B) in, not unemployed
- C) not in, unemployed
- D) not in, not unemployed

Answer: D

Question Status: Previous Edition

Appendix to Chapter 2: How We Measure Real GDP and the Inflation Rate

1) There are no questions for this section.

Answer: