Macroeconomics, First Canadian Edition **(Hubbard et al.)**
Chapter 2 Measuring the Macroeconomy

2.1 GDP: Measuring Total Production and Total Income

1) To make data comparable across countries, and to have uniform methodology of calculating output, countries use the
A) United Nation's System of National Accounts.
B) International Banking System.
C) OECD System of Accounts.
D) World Bank System of National Accounts.
Answer: A
Diff: 1 Type: MC Page Ref: 43
Topic: What Does "GDP" Mean?
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

2) Gross Domestic Product can be described as
A) GNP - income of foreign factors in Canada + income of Canadian factors abroad.
B) GNP - revenue of foreign factors in Canada + revenue of Canadian factors abroad.
C) GNP + income of foreign factors in Canada - income of Canadian factors abroad.
D) GNP + revenue of foreign factors in Canada - revenue of Canadian factors abroad.
Answer: C
Diff: 1 Type: MC Page Ref: 43
Topic: What Does "GDP" Mean?
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

3) The ________ refers to the production and sale of goods and services that are not recorded, either to avoid tax payments or because they are illegal.
A) black market
B) underwater economy
C) underground economy
D) hidden economy
Answer: C
Diff: 1 Type: MC Page Ref: 46
Topic: How Statistics Canada Calculates GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

4) National income accounting reveals that the value of total production in an economy is ________ the value of total income.
A) greater than
B) less than
C) equal to
D) proportionally greater than
Answer: C
Diff: 1 Type: MC Page Ref: 46
Topic: Production and Income
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

5) ________ is/are the main category of expenditure in Canada, amounting to over 55% of GDP.
A) Consumption
B) Investment
C) Government purchases
D) Net exports
Answer: A
Diff: 1 Type: MC Page Ref: 48
Topic: National Income Identities and the Components of GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

6) ________ payments, which are one of the largest components of a government's budget, are payments by the government to individuals for which the government does not receive a new good or service in return.
A) Subsidy
B) Transfer
C) Support
D) Equilization
Answer: B
Diff: 1 Type: MC Page Ref: 49
Topic: National Income Identities and the Components of GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

7) If we subtract depreciation from GNP, we are left with
A) disposable income.
B) net national product.
C) gross domestic product
D) gross national income.
Answer: B
Diff: 1 Type: MC Page Ref: 49
Topic: Other Measures of Production and Income
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

8) ________ is national income earned by households plus transfer payments minus personal tax payments.
A) Disposable income
B) Net national product
C) Gross domestic product
D) Gross national income
Answer: A
Diff: 1 Type: MC Page Ref: 49
Topic: Other Measures of Production and Income
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

9) When exports equal imports, we say that country has a
A) balanced trade.
B) neutral trade deficit/surplus.
C) deficit equality.
D) symmetric trade deficit/surplus.
Answer: A
Diff: 1 Type: MC Page Ref: 49
Topic: National Income Identities and the Components of GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

10) Gross domestic product is calculated as the sum of the
A) total quantity of final goods and services produced in the economy during a period of time.
B) total quantity of goods and services produced in the economy.
C) total market value of goods and services produced in the economy.
D) total market value of final goods and services produced in the economy during a period of time.
Answer: D
Diff: 1 Type: MC Page Ref: 43
Topic: What Does "GDP" Mean?
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

11) Which of the following goods is directly counted in GDP?
A) the ground beef that Taco Bell purchases for use in its burritos
B) the tortillas that Taco Bell purchases for its burritos
C) the paper wrap that Taco Bell purchases to wrap its burritos
D) the Burrito Supreme that Sondra purchases for lunch at Taco Bell
Answer: D
Diff: 2 Type: MC Page Ref: 45
Topic: How Statistics Canada Calculates GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

12) Which of the following is likely to increase measured GDP in Canada?
A) Alberta implements a higher provincial income tax, prompting more Albertans to obtain jobs in the underground economy.
B) Nissan increases production in its Japanese factories to produce more cars for export to Canada.
C) Prostitution is legalized in all provinces.
D) A greater number of men in Manitoba decide to become "stay-at-home dads" to take care of their kids.
Answer: C
Diff: 2 Type: MC Page Ref: 47
Topic: How Statistics Canada Calculates GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

13) National income accounting reveals that the value of total production in an economy
A) is always greater than the value of total income in the economy.
B) is always less than the value of total income in the economy.
C) is always equal to the value of total income in the economy.
D) may be greater than, less than , or equal to the value of total income in the economy.
Answer: C
Diff: 1 Type: MC Page Ref: 46
Topic: Production and Income
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

Table 2.1

	2012		2013	
	Quantity	Price	Quantity	Price
Apples	50	$0.40	75	$0.50
Burritos	80	1.50	100	1.60
Chewing Gum	60	1.25	70	1.50

Table 2.1 gives quantities and prices for each good produced in a simple economy in 2012 and 2013.

14) ***Refer to Table 2.1.*** GDP in 2012 is
A) $190.00.
B) $199.50.
C) $215.00.
D) $267.50.
Answer: C
Diff: 2 Type: MC Page Ref: 47
Topic: An Example of Measuring GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Analytic Skills
Learning Outcome: Macro-3

15) ***Refer to Table 2.1.*** GDP in 2013 is
A) $243.00.
B) $267.50.
C) $294.00.
D) $302.50.
Answer: D
Diff: 2 Type: MC Page Ref: 47
Topic: An Example of Measuring GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Analytic Skills
Learning Outcome: Macro-3

16) Consumer purchases that are consumed at the time and place of purchase are categorized by the Statistics Canada as
A) durable goods.
B) nondurable goods.
C) services.
D) investments.
Answer: C
Diff: 1 Type: MC Page Ref: 47
Topic: National Income Identities and the Components of GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

17) An example of fixed investment spending is
A) the purchase of a new apartment building by a property management company.
B) the purchase of corporate bonds by Microsoft Corporation.
C) the purchase of a new wood chipper by a landscape maintenance company.
D) $4 million in unsold furniture at a home furnishings manufacturer.
Answer: C
Diff: 2 Type: MC Page Ref: 48
Topic: National Income Identities and the Components of GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

18) All of the following new construction projects are examples of fixed investment spending, *except*
A) a dental office.
B) a manufacturing factory.
C) a public library.
D) a shopping centre.
Answer: C
Diff: 2 Type: MC Page Ref: 48
Topic: National Income Identities and the Components of GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

19) All of the following are examples of residential investment spending, *except*
A) the purchase of a new apartment building by a property management company.
B) Sandra's purchase of her childhood home from her parents.
C) the purchase of a new home by the MacGregor family.
D) Tobias purchasing a new duplex. Tobias plans to live in one half and rent the other half to his brother Dorian.
Answer: B
Diff: 2 Type: MC Page Ref: 48
Topic: National Income Identities and the Components of GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

20) Suppose Chevrolet produced 90 000 Camaros in Canada in 2012 and during 2012 sold 69 000 to Canadian customers and exported 14 000 to foreign buyers. How many Camaros would Statistics Canada count as investment spending by Chevrolet in 2012?
A) 7000
B) 21 000
C) 76 000
D) 90 000
Answer: A
Diff: 2 Type: MC Page Ref: 48
Topic: National Income Identities and the Components of GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

21) All of the following are government purchases, *except*
A) the salary paid to Prime Minister Stephen Harper.
B) the pension paid to former Prime Minister John Turner.
C) the purchase of a new office building for the Canadian Security Intelligence Service.
D) the purchase of new radar tracking equipment for the Canadian Navy.
Answer: B
Diff: 2 Type: MC Page Ref: 48-49
Topic: National Income Identities and the Components of GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

22) Many provincial and local governments find themselves faced with increasing retirement expenditures for retired government employees. These increasing expenditures will ________ GDP because they are categorized as ________.
A) increase; government purchases
B) increase; gross private domestic investment
C) decrease; state and local government purchases
D) not change; transfer payments.
Answer: D
Diff: 2 Type: MC Page Ref: 49
Topic: National Income Identities and the Components of GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

23) The purchase by the U.S. government of a fighter jet produced in Canada is included in Canadian
A) consumption spending.
B) investment spending.
C) government purchases.
D) net exports.
Answer: D
Diff: 1 Type: MC Page Ref: 49
Topic: National Income Identities and the Components of GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

24) Gross national product (GNP) of Canada is the value of all final goods and services
A) produced anywhere in the world by residents of Canada.
B) produced in Canada by residents of any nation.
C) produced and consumed within Canada.
D) produced anywhere in the world, but consumed by residents of Canada.
Answer: A
Diff: 1 Type: MC Page Ref: 44
Topic: What Does "GDP" Mean?
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

25) If a U.S. firm opens a production facility in Canada, the profits from this production facility received by the U.S. owners of the firm in exchange for the factors of production they supply will be included in the
A) gross domestic product of the United States.
B) gross national product of Canada.
C) gross national product of the United States.
D) imports from Canada and exports to the United States.
Answer: C
Diff: 2 Type: MC Page Ref: 49
Topic: What Does "GDP" Mean?
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

26) The profits from a Canadian-owned Burger King in France are included in the Canadian ________ and the French ________.
A) GDP; GNP
B) GDP; GDP
C) GNP; GDP
D) GNP; GNP
Answer: C
Diff: 2 Type: MC Page Ref: 44
Topic: What Does "GDP" Mean?
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

27) A country in which a substantial amount of the factories and stores that produce domestic goods and services are foreign-owned is most likely a country in which
A) GDP is much larger than GNP.
B) GNP is much larger than GDP.
C) GDP is roughly equal to GNP.
D) the relationship between GDP and GNP no longer exists.
Answer: A
Diff: 2 Type: MC Page Ref: 44
Topic: What Does "GDP" Mean?
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

28) In national income accounting, the value of worn-out or obsolete capital is represented by
A) depreciation.
B) transfer payments.
C) disposable income.
D) dividends.
Answer: A
Diff: 1 Type: MC Page Ref: 44
Topic: What Does "GDP" Mean?
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

29) Explain which of the following goods and services are included and which are not included in Canada's GDP:
a. Jacinda buys termite spray at her local Home Depot.
b. Jacinda uses the termite spray she purchased at her local Home Depot to treat her house for termites.
c. Arturo hires a pest control company to treat his house for termites.
d. Jeannine sells her 1969 Pontiac GTO to a local car museum.
e. Simon purchases a new John Deere tractor to use on his farm.
f. Ravi purchases two round-trip airline tickets between Toronto and Montreal.
Answer:
a. If the termite spray is produced in Canada, this would be included in Canada's GDP. If the termite spray is imported, this would not be included in Canada's GDP.
b. The value of work that someone performs around her own home is not included in GDP.
c. Hiring a company to perform work at your home is included in GDP.
d. A 1969 vehicle is not current production for the year, so is not included in current GDP.
e. The purchase of a new tractor produced in Canada is included in Canada's GDP.
f. The purchase of airline tickets to be used within Canada is included in Canada's GDP.
Diff: 2 Type: SA Page Ref: 45-46
Topic: How Statistics Canada Calculates GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

30) How would each of the following events likely change measured GDP?
a. The sale and use of marijuana is legalized.
b. There is an increase in sales of counterfeit video games.
c. A foreign-owned furniture manufacturer opens a production facility in Toronto.
d. More people choose to forgo their lawn maintenance services to take care of their own yards.
Answer:
a. If marijuana is legalized, marijuana sales will now be recorded in GDP, so GDP will increase.
b. An increase in sales of counterfeit products will not likely change GDP since these products are illegal and the sales are most likely not being reported.
c. If a foreign-owned manufacturer opens in Canada, Canada's GDP will increase.
d. If people choose to no longer pay for lawn maintenance services and choose instead to perform the services themselves, GDP will decrease.
Diff: 2 Type: SA Page Ref: 45-46
Topic: How Statistics Canada Calculates GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

Table 2.2

	2012		2013	
	Quantity	Price	Quantity	Price
Oranges	30	$0.30	40	$0.50
Egg Rolls	60	1.10	75	1.30
Whistles	50	2.00	50	2.25

Table 2.2 gives quantities and prices for each good produced in a simple economy in 2012 and 2013.

31) ***Refer to Table 2.2.*** Calculate GDP in 2012 and 2013.
Answer:
2012 GDP = (30 × $0.30) + (60 × $1.10) + (50 × $2.00) = $175.00.
2013 GDP = (40 × $0.50) + (75 × $1.30) + (50 × $2.25) = $230.00.
Diff: 2 Type: SA Page Ref: 47
Topic: An Example of Measuring GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Analytic Skills
Learning Outcome: Macro-3

32) List and briefly describe the 4 categories of expenditures included in GDP.
Answer:
1. Consumption, or personal consumption expenditures, is the purchase of new goods and services by households.
2. Investment, or gross private domestic investment, is spending by firms on new factories, office buildings, machinery, and additions to inventories, plus spending by households and firms on new houses.
3. Government, or government purchases, is spending by federal, state, and local governments on goods and services.
4. Net exports is the value of all exports minus the value of all imports.
Diff: 2 Type: SA Page Ref: 47-49
Topic: National Income Identities and the Components of GDP
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

33) Explain the difference between GDP and GNP.
Answer: GDP is the market value of all final goods and services produced in a country during a given period of time, even if the production is owned by citizens of other countries. GNP is the value of all final goods and services produced by residents of a country during a given period of time, even if the production takes place outside the country. GDP - GNP = net factor payments.
Diff: 2 Type: SA Page Ref: 44-45
Topic: What Does "GDP" Mean?
Objective: LO1: Explain how economists use gross domestic product (GDP) to measure total production and total income.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

2.2 Real GDP, Nominal GDP, and the GDP Deflator

1) Economists measure the price level with a(n) ________, which is a measure of the average of the prices of goods and services in one year relative to a base year.
A) inflation index
B) chain-weighted index
C) deflation index
D) price index
Answer: D
Diff: 1 Type: MC Page Ref: 52
Topic: Price Indices, the GDP Deflator, and the Inflation Rate
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

2) If Statistics Canada uses a base year of 2007 for prices, real GDP will be ________ nominal GDP in 2007.
A) higher than
B) lower than
C) either higher or lower than
D) equal to
Answer: D
Diff: 1 Type: MC Page Ref: 52
Topic: Real GDP, Nominal GDP, and the GDP Deflator
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

3) Which of the following does *not* indicate a change in price levels?
A) inflation rate
B) consumer price index
C) GDP deflator
D) nominal GDP
Answer: D
Diff: 1 Type: MC Page Ref: 52
Topic: Price Indices, the GDP Deflator, and the Inflation Rate
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

4) Nominal GDP is the value of goods and services
A) adjusted for inflation.
B) adjusted for anticipated inflation.
C) using base-year prices.
D) using current-year prices.
Answer: D
Diff: 1 Type: MC Page Ref: 50
Topic: Real GDP, Nominal GDP, and the GDP Deflator
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

5) Real GDP is the value of goods and services
A) adjusted only for unanticipated inflation.
B) adjusted only for anticipated inflation.
C) using base-year prices.
D) using current-year prices.
Answer: C
Diff: 1 Type: MC Page Ref: 50
Topic: Real GDP, Nominal GDP, and the GDP Deflator
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

6) If nominal GDP in 2012 was less than real GDP in 2012, we know for certain that
A) the price level in 2012 was greater than the price level in the base year.
B) real GDP in 2012 was greater than real GDP in the base year.
C) the price level in 2012 was less than the price level in the base year.
D) real GDP in 2012 was less than real GDP in the base year.
Answer: C
Diff: 2 Type: MC Page Ref: 50
Topic: Real GDP, Nominal GDP, and the GDP Deflator
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

7) Which of the following could cause nominal GDP to increase and real GDP to decrease?
A) The price level falls and the quantity of final goods and services produced falls.
B) The price level falls and the quantity of final goods and services produced rises.
C) The price level rises and the quantity of final goods and services produced falls.
D) The price level rises and the quantity of final goods and services produced rises.
Answer: C
Diff: 3 Type: MC Page Ref: 50
Topic: Real GDP, Nominal GDP, and the GDP Deflator
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

Table 2.3

	2007		2010		2013	
	Quantity	***Price***	***Quantity***	***Price***	***Quantity***	***Price***
Peaches	150	$0.20	170	$0.30	190	$0.40
Tacos	75	0.80	80	1.00	100	1.20
Flashlights	40	3.00	40	3.50	50	4.50
Harmonicas	20	14.00	25	16.00	30	18.00

Table 2.3 gives quantities and prices for each good produced in a simple economy in 2007, 2010, and 2013.

8) ***Refer to Table 2.3.*** Nominal GDP in 2007 is
A) $320.63.
B) $490.00.
C) $568.00.
D) $1282.50.
Answer: B
Diff: 2 Type: MC Page Ref: 50-51
Topic: Real GDP, Nominal GDP, and the GDP Deflator
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: Solved Problem 2.2a: Calculating Real GDP
AACSB: Analytic Skills
Learning Outcome: Macro-3

9) ***Refer to Table 2.3.*** Nominal GDP in 2010 is
A) $540.00.
B) $568.00.
C) $671.00.
D) $812.00.
Answer: C
Diff: 2 Type: MC Page Ref: 50-51
Topic: Real GDP, Nominal GDP, and the GDP Deflator
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: Solved Problem 2.2a: Calculating Real GDP
AACSB: Analytic Skills
Learning Outcome: Macro-3

10) ***Refer to Table 2.3.*** Nominal GDP in 2013 is
A) $568.00.
B) $794.00.
C) $812.00.
D) $961.00.
Answer: D
Diff: 2 Type: MC Page Ref: 50-51
Topic: Real GDP, Nominal GDP, and the GDP Deflator
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: Solved Problem 2.2a: Calculating Real GDP
AACSB: Analytic Skills
Learning Outcome: Macro-3

11) ***Refer to Table 2.3.*** Assume that 2010 is the base year. Real GDP in 2007 is
A) $490.00.
B) $568.00.
C) $580.00.
D) $671.00.
Answer: C
Diff: 2 Type: MC Page Ref: 50-51
Topic: Real GDP, Nominal GDP, and the GDP Deflator
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: Solved Problem 2.2a: Calculating Real GDP
AACSB: Analytic Skills
Learning Outcome: Macro-3

12) ***Refer to Table 2.3.*** Assume that 2010 is the base year. Real GDP in 2010 is
A) $490.00.
B) $580.00.
C) $671.00.
D) $812.00.
Answer: C
Diff: 2 Type: MC Page Ref: 50-51
Topic: Real GDP, Nominal GDP, and the GDP Deflator
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: Solved Problem 2.2a: Calculating Real GDP
AACSB: Analytic Skills
Learning Outcome: Macro-3

13) ***Refer to Table 2.3.*** Assume that 2010 is the base year. Real GDP in 2013 is
A) $688.00.
B) $794.00.
C) $812.00.
D) $961.00.
Answer: C
Diff: 2 Type: MC Page Ref: 50-51
Topic: Real GDP, Nominal GDP, and the GDP Deflator
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: Solved Problem 2.2a: Calculating Real GDP
AACSB: Analytic Skills
Learning Outcome: Macro-3

14) ***Refer to Table 2.3.*** Assume that 2010 is the base year. The GDP deflator for 2007 is
A) 67.1.
B) 84.5.
C) 100.0.
D) 118.3.
Answer: B
Diff: 2 Type: MC Page Ref: 52
Topic: Real GDP, Nominal GDP, and the GDP Deflator
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: None - Recurring question
AACSB: Analytic Skills
Learning Outcome: Macro-3

15) ***Refer to Table 2.3.*** Assume that 2010 is the base year. The GDP deflator for 2010 is
A) 67.1.
B) 84.5.
C) 100.0.
D) 118.3.
Answer: C
Diff: 2 Type: MC Page Ref: 52
Topic: Real GDP, Nominal GDP, and the GDP Deflator
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: None - Recurring question
AACSB: Analytic Skills
Learning Outcome: Macro-3

16) ***Refer to Table 2.3.*** Assume that 2010 is the base year. The GDP deflator for 2013 is
A) 67.1.
B) 84.5.
C) 100.0.
D) 118.3.
Answer: D
Diff: 2 Type: MC Page Ref: 52
Topic: Real GDP, Nominal GDP, and the GDP Deflator
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: None - Recurring question
AACSB: Analytic Skills
Learning Outcome: Macro-3

17) If the GDP deflator is less than 100 in 2013, then nominal GDP ________ real GDP in 2013.
A) is less than
B) is greater than
C) is equal to
D) may be greater than or less than
Answer: A
Diff: 2 Type: MC Page Ref: 52
Topic: Price Indices, the GDP Deflator, and the Inflation Rate
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

Table 2.4

	2011	2012
Nominal GDP	\$555 million	\$610 million
Real GDP	\$480 million	\$575 million

18) ***Refer to Table 2.4.*** The GDP deflator for 2011 is
A) 86.5.
B) 115.6.
C) 135.1.
D) 156.3.
Answer: B
Diff: 2 Type: MC Page Ref: 52
Topic: Price Indices, the GDP Deflator, and the Inflation Rate
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: Solved Problem 2.2b: Calculating the Inflation Rate
AACSB: Analytic Skills
Learning Outcome: Macro-3

19) ***Refer to Table 2.4.*** The GDP deflator for 2012 is
A) 60.9.
B) 94.3.
C) 106.1.
D) 157.4.
Answer: C
Diff: 2 Type: MC Page Ref: 52
Topic: Price Indices, the GDP Deflator, and the Inflation Rate
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: Solved Problem 2.2b: Calculating the Inflation Rate
AACSB: Analytic Skills
Learning Outcome: Macro-3

20) ***Refer to Table 2.4.*** The inflation rate for 2012 is
A) -8.22%.
B) 8.95%.
C) 9.13%.
D) 10.89%.
Answer: A
Diff: 2 Type: MC Page Ref: 53
Topic: Price Indices, the GDP Deflator, and the Inflation Rate
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: Solved Problem 2.2b: Calculating the Inflation Rate
AACSB: Analytic Skills
Learning Outcome: Macro-3

21) Explain the difference between nominal GDP and real GDP. Which is more important when using GDP as a measure of production? Why?
Answer: Nominal GDP is the value of final goods and services using current-year prices. Real GDP is the value of final goods and services using base-year prices. Real GDP is more important when using GDP as a measure of production. Real GDP keeps prices constant when comparing production for different years. By keeping prices constant, changes in real GDP figures represent changes in the quantity of goods and services produced.
Diff: 2 Type: SA Page Ref: 50
Topic: Real GDP, Nominal GDP, and the GDP Deflator
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-3

Table 2.5

	2012 Quantity	2012 Price	2013 Quantity	2013 Price
Pineapples	20	$0.50	25	$0.55
Milkshakes	70	1.50	90	1.75
Lipstick	20	2.00	30	2.25
Bookmarks	35	0.75	35	1.00

Table 2.5 gives quantities and prices for each good produced in a simple economy in 2012 and 2013.

22) ***Refer to Table 2.5.*** Calculate nominal and real GDP for 2012 and 2013. Assume 2012 is the base year. What is the value of the GDP deflator for 2012 and for 2013?
Answer:
Nominal GDP in 2012 = (20 × $0.50) + (70 × $1.50) + (20 × $2.00) + (35 × $0.75) = $181.25.
Nominal GDP in 2013 = (25 × $0.55) + (90 × $1.75) + (30 × $2.25) + (35 x$ 1.00) = $273.75.

Real GDP in 2012 = (20 × $0.50) + (70 × $1.50) + (20 × $2.00) + (35 × $0.75) = $181.25.
Real GDP in 2013 = (25 × $0.50) + (90 × $1.50) + (30 × $2.00) + (35 × $0.75) = $233.75.

GDP deflator for 2012 = ($181.25 / $181.25) × 100 = 100.
GDP deflator for 2013 = ($273.75 / $233.75) × 100 = 117.1.
Diff: 2 Type: SA Page Ref: 52
Topic: Real GDP, Nominal GDP, and the GDP Deflator
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: Solved Problem 2.2a: Calculating Real GDP
AACSB: Analytic Skills
Learning Outcome: Macro-3

Table 2.6

	2011	2012
Nominal GDP	$350 million	$390 million
Real GDP	$325 million	$375 million

23) ***Refer to Table 2.6.*** What is the inflation rate for 2012?
Answer: The GDP deflator for 2011 = ($350 million / $325 million) × 100 = 107.7.
The GDP deflator for 2012 = ($390 million / $375 million) × 100 = 104.0.

The inflation rate for 2012 = [(104.0 - 107.7) / 107.7] × 100 = -3.44%.
Diff: 2 Type: SA Page Ref: 53
Topic: Price Indices, the GDP Deflator, and the Inflation Rate
Objective: LO2: Discuss the difference between real GDP and nominal GDP.
Special Feature: Solved Problem 2.2b: Calculating the Inflation Rate
AACSB: Analytic Skills
Learning Outcome: Macro-3

2.3 Inflation Rates and Interest Rates

1) Pensions, wages, social support payments, tax brackets, and other dollar values are adjusted by the percentage equal to, or related to, the rate of inflation. Such adjusting is called
A) indexation.
B) deflation.
C) price weighting.
D) inflationary reconciliation.
Answer: A
Diff: 1 Type: MC Page Ref: 54
Topic: The Consumer Price Index (CPI)
Objective: LO3: Explain how the inflation rate is measured, and distinguish between real and nominal interest rates.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-13

2) Almost ________ of the CPI basket falls into the categories of housing, transportation, and food.
A) two-thirds
B) half
C) one-quarter
D) three-quarters
Answer: A
Diff: 1 Type: MC Page Ref: 54
Topic: The Consumer Price Index (CPI)
Objective: LO3: Explain how the inflation rate is measured, and distinguish between real and nominal interest rates.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-13

3) The CPI does a better job than the GDP deflator at measuring changes in the
A) cost of living as experienced by the typical household.
B) standard of living as experienced by the typical household.
C) the price level for the whole economy.
D) the price level for corporations.
Answer: A
Diff: 1 Type: MC Page Ref: 54
Topic: The Consumer Price Index (CPI)
Objective: LO3: Explain how the inflation rate is measured, and distinguish between real and nominal interest rates.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-13

4) Under the inflation targeting framework, introduced in 1991, the Bank of Canada aims to maintain the CPI inflation between
A) 1% and 3%.
B) 1% and 2%.
C) 0% and 2%.
D) 2% and 3%.
Answer: A
Diff: 1 Type: MC Page Ref: 57
Topic: How the Bank of Canada Measures Inflation: Core Inflation
Objective: LO3: Explain how the inflation rate is measured, and distinguish between real and nominal interest rates.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-13

5) The consumer price index is
A) an average of the prices of the goods and services purchased by the typical family.
B) the cost of a market basket of goods and services typically consumed in a base year.
C) the cost of a market basket of goods and services typically consumed in the current year.
D) an average of the prices of new final goods and services produced in the economy over a period of time.
Answer: A
Diff: 1 Type: MC Page Ref: 54
Topic: The Consumer Price Index (CPI)
Objective: LO3: Explain how the inflation rate is measured, and distinguish between real and nominal interest rates.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-13

6) Which of the following is true about the consumer price index?
A) It is updated continuously to account for the introduction of new goods.
B) It accounts for people switching away from goods whose prices have risen.
C) It assumes that consumers purchase the same quantity of each product in the market basket each month.
D) It accurately reflects quality changes in goods and services over time.
Answer: C
Diff: 2 Type: MC Page Ref: 55
Topic: Differences between the GDP Deflator and the CPI
Objective: LO3: Explain how the inflation rate is measured, and distinguish between real and nominal interest rates.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-13

7) The Bank of Canada may use core CPI, which excludes items such as food and energy, as a measure of inflation because
A) food and energy are necessities, so consumers have no choice but to purchase these.
B) food and energy prices tend to remain stable in the short run, so are not relevant to the calculation of inflation.
C) including food and energy prices tends to overstate the true inflation rate by 0.5% to 1%.
D) food and energy prices tend to fluctuate up and down for reasons that may not be related to the general causes of inflation.
Answer: D
Diff: 1 Type: MC Page Ref: 57
Topic: How the Bank of Canada Measures Inflation: Core Inflation
Objective: LO3: Explain how the inflation rate is measured, and distinguish between real and nominal interest rates.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-13

8) The cost of borrowing funds that is stated on a loan is the
A) prime interest rate.
B) nominal interest rate.
C) real interest rate.
D) core PCE interest rate.
Answer: B
Diff: 1 Type: MC Page Ref: 58
Topic: Interest Rates
Objective: LO3: Explain how the inflation rate is measured, and distinguish between real and nominal interest rates.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-13

9) When the cost of borrowing funds that is stated on a loan is adjusted for the effects of inflation, the resulting interest rate is called the
A) prime interest rate.
B) nominal interest rate.
C) real interest rate.
D) core PCE interest rate.
Answer: C
Diff: 1 Type: MC Page Ref: 58
Topic: Interest Rates
Objective: LO3: Explain how the inflation rate is measured, and distinguish between real and nominal interest rates.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-13

10) If the real interest rate is 3% and the expected inflation rate is 6%, then the nominal interest rate is
A) 0.5%.
B) 2%.
C) 3%.
D) 9%.
Answer: D
Diff: 1 Type: MC Page Ref: 58
Topic: Interest Rates
Objective: LO3: Explain how the inflation rate is measured, and distinguish between real and nominal interest rates.
Special Feature: None - Recurring question
AACSB: Analytic Skills
Learning Outcome: Macro-13

11) Suppose you borrow $2000 for one year and at the end of the year you repay the $2000 plus $110 of interest. If the expected inflation rate was 2.2% at the time you took out the loan, what was the real interest rate you paid?
A) 2.2%
B) 3.3%
C) 5.5%
D) 7.7%
Answer: B
Diff: 2 Type: MC Page Ref: 58
Topic: Interest Rates
Objective: LO3: Explain how the inflation rate is measured, and distinguish between real and nominal interest rates.
Special Feature: None - Recurring question
AACSB: Analytic Skills
Learning Outcome: Macro-13

12) Suppose you borrow $2000 for one year and at the end of the year you repay the $2000 plus $110 of interest. The expected inflation rate was 2.2% at the time you took out the loan, but the actual inflation rate turned out to be 3.3%. What was the actual real interest rate you paid?
A) 2.2%
B) 3.3%
C) 5.5%
D) 8.8%
Answer: A
Diff: 2 Type: MC Page Ref: 58
Topic: Interest Rates
Objective: LO3: Explain how the inflation rate is measured, and distinguish between real and nominal interest rates.
Special Feature: None - Recurring question
AACSB: Analytic Skills
Learning Outcome: Macro-13

13) If the actual inflation rate is less than the expected inflation rate, the actual real interest rate will be ________ than the expected real interest rate. When this happens, ________ will lose and ________ will gain.
A) less; borrowers; lenders
B) less; lenders; borrowers
C) greater; borrowers; lenders
D) greater; lenders; borrowers
Answer: C
Diff: 2 Type: MC Page Ref: 58
Topic: Interest Rates
Objective: LO3: Explain how the inflation rate is measured, and distinguish between real and nominal interest rates.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-13

14) Most economists believe there are four reasons the CPI overstates the true inflation rate. List and briefly explain these four reasons.
Answer:
1. The CPI suffers from substitution bias. When prices of certain products increase, consumers often substitute other, less expensive products for the products whose prices have gone up. The CPI does not take into account these changes in purchasing patterns.
2. The CPI suffers from a bias due to the introduction of new goods. Since the market basket is updated only every two years, new goods, whose prices often significantly decrease shortly after being introduced, may not be included in the market basket.
3. The CPI does not completely reflect changes in the quality of goods and services. For many products, quality increases over time, and the CPI does not fully adjust prices for changes in quality.
4. The CPI is subject to an outlet bias. Price data for the CPI is collected primarily from traditional retail outlets, so large discount stores are underrepresented in the sample of prices gathered for the CPI.
Diff: 2 Type: SA Page Ref: 56
Topic: Differences between the GDP Deflator and the CPI
Objective: LO3: Explain how the inflation rate is measured, and distinguish between real and nominal interest rates.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-13

15) Suppose you borrow $8000 for one year and at the end of the year you repay the $8000 plus $600 of interest. The expected inflation rate was 3.5% at the time you took out the loan, but the actual inflation rate turned out to be 2.5%. What was the expected real interest rate at the time of the loan? What was the actual real interest rate you paid? Who gained and who lost from the difference in the expected and actual inflation rates?
Answer: If you paid $600 of interest on a loan of $8000, the nominal interest rate was 7.5%. If the expected inflation rate was 3.5%, the expected real interest rate was (7.5% - 3.5%) = 4%. If the actual inflation rate was 2.5%, the actual real interest rate was (7.5% - 2.5%) = 5%. You expected to pay a real interest rate of 4%, but actually paid a real interest rate of 5%, so you lost and the lender gained from the difference in the expected and actual inflation rates.
Diff: 2 Type: SA Page Ref: 58-59
Topic: Interest Rates
Objective: LO3: Explain how the inflation rate is measured, and distinguish between real and nominal interest rates.
Special Feature: None - Recurring question
AACSB: Analytic Skills
Learning Outcome: Macro-13

2.4 Measuring Employment and Unemployment

1) ________ is/are a particularly serious problem as job skills deteriorate among people who have been out of work for an extended time and it is difficult for them to find new employment.
A) Long-term unemployment
B) Involuntary part-timers
C) Discouraged workers
D) Waiting group
Answer: A
Diff: 2 Type: MC Page Ref: 61
Topic: Measuring Employment and Unemployment
Objective: LO4: Understand how to calculate the unemployment rate.
Special Feature: None - Recurring question
AACSB: Analytic Skills
Learning Outcome: Macro-14

2) The labour force participation rate is
A) the proportion of people 15 years old and over who are in the labour force.
B) the ratio of employed workers to unemployed workers.
C) the percentage of employed workers in the labour force.
D) the percentage of employed workers 15 years old and over who are in the labour force.
Answer: A
Diff: 2 Type: MC Page Ref: 61
Topic: Measuring Employment and Unemployment
Objective: LO4: Understand how to calculate the unemployment rate.
Special Feature: None - Recurring question
AACSB: Analytic Skills
Learning Outcome: Macro-14

3) Suppose the population of a fictional economy falls into the following categories: 320 are employed full time; 110 are employed part time; 20 are unemployed but are actively looking for employment; 50 are unemployed and are not actively looking for employment. The official unemployment rate as calculated by Statistics Canada would be
A) 4.4%.
B) 5.9%.
C) 14.0%.
D) 28.9%.
Answer: A
Diff: 2 Type: MC Page Ref: 61
Topic: Measuring Employment and Unemployment
Objective: LO4: Understand how to calculate the unemployment rate.
Special Feature: None - Recurring question
AACSB: Analytic Skills
Learning Outcome: Macro-14

4) Suppose the working-age population of a fictional economy falls into the following categories: 30 are retired; 45 are stay-at-home parents; 120 are employed full time; 40 are employed part time; 25 are unemployed but are actively looking for employment; 15 are unemployed and are not actively looking for employment. The official unemployment rate as calculated by Statistics Canada would be
A) 9.62%.
B) 13.51%.
C) 14.55%.
D) 20.0%.
Answer: B
Diff: 2 Type: MC Page Ref: 61
Topic: Measuring Employment and Unemployment
Objective: LO4: Understand how to calculate the unemployment rate.
Special Feature: None - Recurring question
AACSB: Analytic Skills
Learning Outcome: Macro-14

5) Which of the following would cause the unemployment rate as measured by Statistics Canada to understate the true degree of joblessness in the economy?
A) people employed in the underground economy
B) unemployed persons who falsely report themselves as actively looking for a job
C) retired people who have no intention of returning to work
D) people with part-time jobs who would prefer to be working full time
Answer: D
Diff: 2 Type: MC Page Ref: 61-62
Topic: Measuring Employment and Unemployment
Objective: LO4: Understand how to calculate the unemployment rate.
Special Feature: Key Issue and Question: How Accurately Does the Government Measure the Unemployment Rate?
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-14

6) Which of the following would cause the unemployment rate as measured by Statistics Canada to overstate the true degree of joblessness in the economy?
A) discouraged workers
B) unemployed persons who falsely report themselves as actively looking for a job
C) retired people who have no intention of returning to work
D) people with part-time jobs who would prefer to be working full time
Answer: B
Diff: 2 Type: MC Page Ref: 61-62
Topic: Measuring Employment and Unemployment
Objective: LO4: Understand how to calculate the unemployment rate.
Special Feature: Key Issue and Question: How Accurately Does the Government Measure the Unemployment Rate?
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-14

7) Identify which of the following people would be considered either employed, unemployed, or not in the labour force:
a. Alejandro just lost his job at an automobile assembly plant and is looking for work in another industry.
b. Bonnie quit her job six months ago to take care of her newborn triplets.
c. Cheyenne just received her bachelor's degree in accounting and is going to backpack through Europe for six months before seeking employment as an auditor.
d. Danitra owns a talent agency which provides clowns for children's birthday parties.
e. Edgar is a full-time student and is working 10 hours each week as a lab assistant at Faber College.
f. Flavio was awarded a $10 million settlement from his former employer and has chosen to retire.
Answer:
a. Alejandro is unemployed, since he does not have a job but is actively looking for work.
b. Bonnie is not in the labour force since she is not employed and is not seeking employment.
c. Cheyenne is not in the labour force since she is not employed and is not planning on seeking employment for more than four weeks.
d. Danitra is employed.
e. Edgar is considered employed since he does have a part-time job.
f. Flavio is not in the labour force since he has chosen to retire and not actively seek employment.
Diff: 2 Type: SA Page Ref: 61-62
Topic: Measuring Employment and Unemployment
Objective: LO4: Understand how to calculate the unemployment rate.
Special Feature: None - Recurring question
AACSB: Reflective Thinking Skills
Learning Outcome: Macro-14