Exam

Name___________________________________

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Gross domestic product is defined as 1) ________
A) the market value of all goods and services produced by Canadian residents domestically and abroad.
B) the total market value of all the intermediate goods and services produced in the economy for a given time period within the borders of Canada.
C) the market value of all goods and services produced in the economy during a given time period within the borders of Canada.
D) the value of all goods produced in the economy in a given time period within the borders of Canada.
E) the total market value of the final goods and services produced during a given time period within the borders of Canada.

2) GDP is published by Statistics Canada as part of the 2) ________
A) National Income and Expenditure Accounts (NIEA).
B) GDP Statistical Review.
C) Current Population Survey.
D) Labour Force Statistics.
E) Survey of Current Business.

3) the three approaches to measuring GDP are called the 3) ________
A) product approach, the income approach, and the expenditure approach.
B) accounting approach, the income approach, and the expenditure approach.
C) accounting approach, the statistical approach, and the product approach.
D) product approach, the cost approach, and the expenditure approach.
E) accounting approach, the statistical approach, and the income approach.

4) Approaches to measuring GDP include 4) ________
A) trade approach.
B) income approach.
C) cost approach.
D) value-subtracted approach.
E) GDP approach.

5) Acme Steel Co. produces 1,000 tons of steel. Steel sells for $30 per ton. Acme pays wages of $10,000. Acme buys $15,000 worth of coal, which is needed to produce the steel. Acme pays $2,000 in taxes. Acme's contribution to GDP is 5) ________
A) $15,000. B) $45,000. C) $20,000. D) $60,000. E) $30,000.

6) Intermediate goods are 6) ________
A) irrelevant in the overall economy.
B) not a consumption good.
C) purchased by consumers.
D) goods that are produced and used as inputs into the production process.
E) sold to foreigners.

7) Jim's Nursery produces and sells $1,100 worth of flowers. Jim uses no intermediate inputs. He pays his workers $700 in wages, pays $100 in taxes and pays $200 in interest on a loan. Jim's profit is 7) ________

A) $200. B) $800. C) $100. D) $1,000. E) $400.

8) Acme Steel Co. produces 1,000 tons of steel. Steel sells for $30 per ton. Acme pays wages of $10,000. Acme buys $15,000 worth of coal, which is needed to produce the steel. Acme pays $2,000 in taxes. Acme's profit is 8) ________

A) $25,000. B) $0. C) $15,000. D) $3,000. E) $2,000.

9) Pamela's bakery produces 500 loaves of bread in a given year. Pamela pays $100 for flour and yeast, pays $600 in wages, pays $50 in interest on an existing loan, and pays $100 in taxes to the government. One of Pamela's bread slicing machines, which cost $75 each, wears out over the course of the year and must be scrapped. Pamela's profit for the year equals $75. Pamela's bread, therefore, sells for 9) ________

A) $1.50 per loaf.
B) $0.50 per loaf.
C) $1.00 per loaf.
D) $2.00 per loaf.
E) cannot tell, insufficient information.

10) The value of a producer's output minus the value of all intermediate goods used in the production of that output is called the producer's 10) ________

A) net output.
B) costs of production.
C) value added.
D) profit margin.
E) accounting profit.

11) Value added is equal to the value of a firm's production minus 11) ________

A) investment expenditures.
B) costs of production.
C) labour costs.
D) intermediate goods used in production.
E) all of its costs of production.

12) Suppose that the government collects $3 million in taxes, pays $2 million in Employment Insurance benefits, pays $0.5 million in interest on the national debt, and pays workers $1 million to sit at their desks and work as little as possible. The government's contribution to GDP is 12) ________

A) $3 million.
B) $3.5 million.
C) $0.
D) $1.5 million.
E) $1 million.

13) The product approach to calculating GDP values government production at 13) ________

A) its cost of production.
B) its estimated value to society.
C) the total amount of taxes it collects.
D) its intermediate costs.
E) market prices.

14) The expenditure approach is calculated as 14) _______

A) C + I + X.
B) C + I + NX.
C) C + I + G.
D) C + I + G + NX.
E) the value approach.

15) The expenditure approach to calculating GDP includes 15) _______

A) intermediate goods.
B) taxes.
C) wage income.
D) consumption.
E) net factor payments.

16) Jim's Nursery produces and sells $1,100 worth of flowers. Jim uses no intermediate inputs. He pays his workers $700 in wages, pays $100 in taxes and pays $200 in interest on a loan. Jim's contribution to GDP is 16) _______

A) $900. B) $2,000. C) $1,000. D) $1,100. E) $1,800.

17) The expenditure approach to calculating GDP includes 17) _______

A) wage income.
B) all forms of taxation.
C) investment.
D) corporate profits.
E) the sum of government spending on goods and services, transfer payments, and interest on the national debt.

18) The income approach to calculating GDP is 18) _______

A) the sum of all incomes earned from production.
B) the sum of all consumer income earned.
C) net of taxes.
D) all the spending on goods and services earned by consumer's income.
E) the sum of all business income earned.

19) The income approach to calculating GDP includes 19) _______

A) exports of income earned.
B) net interest income.
C) consumer spending.
D) government surpluses.
E) investment.

20) To calculate value added, we need to subtract 20) _______

A) total imports.
B) only the cost of domestically produced intermediate inputs.
C) the cost of all goods and services exported.
D) only the cost of foreign-produced intermediate inputs.
E) the cost of domestic- and foreign-produced intermediate inputs.

21) The income-expenditure identity is best paraphrased as 21) _______
A) all profits are used for investment spending.
B) on average, consumers cannot save.
C) all income is spent.
D) all spending generates income.
E) on average, government can spend no more than what it collects in income taxes.

22) Inventory investment consists of 22) _______
A) construction expenditures, raw materials, and inventories of finished goods.
B) raw materials, goods in process, and construction expenditures.
C) inventories of finished goods, goods in process, and raw materials.
D) goods in process, raw materials, and purchases of office machinery.
E) used finished goods.

23) Additions to inventory is 23) _______
A) considered national savings.
B) not counted as an expenditure in GDP accounting.
C) subtracted from sales revenue in calculating profit income.
D) counted as an intermediate input.
E) counted as a component of investment spending.

24) Government expenditures includes 24) _______
A) consumer spending.
B) federal defense spending.
C) residential spending.
D) inventory investment.
E) financial investment.

25) The components of consumption expenditures include 25) _______
A) government consumption.
B) nondurable goods consumption.
C) investment in stocks and bonds.
D) donations.
E) purchases of used cars and books.

26) In 2017, consumption comprised approximately 26) _______
A) 58% of GDP.
B) 28% of GDP.
C) 15% of GDP.
D) 80% of GDP.
E) 40% of GDP.

27) The components of investment expenditures include 27) _______
A) investment in plant and equipment abroad.
B) investment in stocks and bonds.
C) investment in health care.
D) investment in consumer's education.
E) residential investment.

28) Investment spending is 28) ______
A) the share of stock prices to GDP.
B) a smaller share of GDP than consumption.
C) less volatile than GDP.
D) less volatile than consumption.
E) a larger share of GDP than consumption.

29) Investment spending is 29) ______
A) equally as volatile as government spending.
B) less volatile than consumption spending.
C) a larger fraction of GDP than consumption is.
D) much more volatile than consumption spending.
E) equally volatile as GDP.

30) In 2017, which of the following comprised less than 5% of GDP? 30) ______
A) net exports
B) government spending
C) imports
D) investment
E) exports

31) Government expenditures does NOT include 31) ______
A) government consumption.
B) government investment.
C) provincial and municipal spending.
D) transfers.
E) federal government spending.

32) When there is rapid inflation 32) ______
A) government tries to increase growth in real GDP.
B) growth in real GDP and nominal GDP are roughly equal.
C) growth in real GDP exceeds growth in nominal GDP.
D) growth in nominal GDP exceeds growth in real GDP.
E) there can never be any growth in nominal GDP.

For the following question(s), suppose that an economy produces only food and clothing, and that price and quantity data are given in the table below.

Year 1

Good	Quantity	Price
Food	20	$6
Clothing	10	$6

Year 2

Good	Quantity	Price
Food	25	$10
Clothing	20	$7

33) Year 1 nominal GDP is 33) ______
A) $450. B) $200. C) $310. D) $390. E) $270.

34) Year 2 nominal GDP is 34) ______

A) \$200. B) \$270. C) \$450. D) \$390. E) \$310.

35) Suppose that Year 1 is the base year. Year 2 real GDP is 35) ______

A) \$390. B) \$310. C) \$270. D) \$200. E) \$450.

36) Suppose that Year 2 is the base year. Year 1 real GDP is 36) ______

A) \$450. B) \$390. C) \$200. D) \$270. E) \$310.

For the following question(s), suppose an economy produces only pens and pencils, and that the quantity and price data is given by this table:

	Pens	Pencils
Year 1 quantity	15	10
Year 1 price	\$12	\$12
Year 2 quantity	17	12
Year 2 price	\$14	\$15

37) What is the real GDP in year 2 using base year 1? 37) ______

A) \$300 B) \$360 C) \$294 D) \$338 E) \$418

38) What is the real GDP in year 1 using base year 2? 38) ______

A) \$360 B) \$300 C) \$294 D) \$418 E) \$338

39) What is the real GDP in year 1 using base year 1? 39) ______

A) \$338 B) \$300 C) \$294 D) \$418 E) \$360

40) What is the real GDP in year 2 using base year 2? 40) ______

A) \$414 B) \$360 C) \$300 D) \$418 E) \$338

41) What is approximately the growth rate of real GDP using base year 1? 41) ______

A) 13% B) 25% C) 20% D) 33% E) 39%

42) What is the inflation rate using base year 1? 42) ______

A) 10% B) 13% C) 15% D) 20% E) 25%

43) Real GDP values current production at 43) ______

A) base year prices.
B) current year prices.
C) the best estimate of next year's prices.
D) the purchase price not the asking prices of goods and services.
E) the average of price levels over the entire sample period.

44) Construction of chain-weighted real GDP employs the technique of a(n) 44) ______

A) inflation rate index.
B) Fisher index.
C) Gini index.
D) body mass index.
E) Herfindahl index.

45) In Canada, real GDP is currently calculated using 45) ______
A) a chain-weighting scheme.
B) a variable-weighting scheme.
C) an autoregressive scheme.
D) a fixed-weighting scheme.
E) constant-inflation scheme.

46) To calculate the change in chain-weighted real GDP from one year to the next, we use 46) ______
A) second-year prices.
B) the percentage change in prices from the first year to the second.
C) average prices over the two years.
D) base-year prices.
E) first-year prices.

47) Suppose that g_1 represents the ratio of year 2 GDP to year 1 GDP, both valued at year 1 prices. Suppose that g_2 represents the ratio of year 2 GDP to year 1 GDP, both valued at year 2 prices. The ratio of chain-weighted year 2 GDP to chain-weighted year 1 GDP equals 47) ______
A) $(g_1 \times g_2)/2$.
B) $\sqrt{g_1 \times g_2}$.
C) $(\sqrt{g_1} + \sqrt{g_2})/2$.
D) $\sqrt{g_1 / g_1}$.
E) $(g_1 + g_2)/2$.

48) The implicit GDP price deflator can be defined as 48) ______
A) Nominal GDP - Real GDP.
B) the consumer price index.
C) (Nominal GDP + Real GDP) / 2.
D) (Real GDP / Nominal GDP) * 100.
E) (Nominal GDP / Real GDP) * 100.

For the following question(s), suppose that an economy produces only bread and computers. Assume that all production is consumed in each year, and that price and quantity data are given in the table below.

Year 1

Good	Quantity	Price
Bread	30	$10
Computers	10	$50

Year 2

Good	Quantity	Price
Bread	40	$15
Computers	30	$60

49) If Year 1 is the base year, the GDP price deflator for Year 2 is approximately 49) ______
A) 181.0. B) 131.3. C) 126.3. D) 211.0. E) 100.0.

50) If Year 1 is the base year, the CPI for Year 2 is approximately 50) ______
A) 181.0. B) 211.0. C) 100.0. D) 126.3. E) 131.3.

51) If a particular measure of real GDP consistently underestimates growth in real GDP, then the rate of inflation as measured by the GDP deflator 51) _______

A) will be overestimated and underestimated equally often.
B) will consistently be underestimated.
C) will consistently be overestimated.
D) is not a good predictor of the inflation rate in the CPI.
E) cannot be calculated.

52) When we try to measure real GDP and the price level, if we underestimate the growth in real GDP, we will 52) _______

A) always underestimate the rate of inflation.
B) sometimes underestimate the rate of inflation.
C) always overestimate the rate of inflation.
D) not be able to measure the rate of inflation.
E) sometimes overestimate the rate of inflation.

53) Even when measured accurately, GDP may be a misleading measure of economic welfare because it cannot account for 53) _______

A) the value of non-market production and the consequences of an unequal distribution of income.
B) the consequences of an unequal distribution of income and the value of government spending.
C) the value of government spending and how efficiently we produce goods and services.
D) how efficiently we produce goods and services and the value of non-market production.
E) the cost of intermediate goods and services.

54) GDP may inaccurately measure the value of aggregate output because it may not properly account for 54) _______

A) production in the underground economy and the true value of government production.
B) the depreciation of consumer durables and production in the underground economy.
C) all services produced.
D) the proper value of purchases and sales of used goods and depreciation of consumer durables.
E) the true value of government production and the proper value of purchases and sales of used goods.

55) Significant problems with measuring real GDP and the price level include 55) _______

A) purchases of used goods.
B) changes in consumption patterns.
C) changes in relative price levels.
D) changes in the number of consumers.
E) changes in standards of living.

56) Changes in the relative prices of goods causes problems measuring real GDP because 56) _______

A) consumers buy less of the cheaper good.
B) they tend to be inaccurate.
C) firms produce more of the cheaper good.
D) price deflators only measure the price level.
E) consumers change their buying habits.

57) Significant problems with measuring real GDP and the price level include 57) _______
A) changes in the quality of goods over time.
B) purchases of used goods.
C) changes in the population size.
D) changes in the size of the government.
E) changes in the importance of intermediate goods.

58) It is difficult to accurately measure real GDP because 58) _______
A) it cannot take into account changes in government policy over time.
B) it does not accurately take into account the introduction of new goods.
C) it does not include money transfers.
D) it does not take into account intermediate goods.
E) it does not include taxes.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

59) List and discuss two reasons why national income accountants could make errors in measuring GDP.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

60) An example of a stock would be 60) _______
A) investment.
B) government spending.
C) the amount of money in circulation.
D) real GDP.
E) savings.

61) An example of a flow would be the 61) _______
A) percent of pollutants in tap water.
B) pressure of water in a pipe.
C) rate at which the cold water comes out of the tap.
D) rate at which water goes down the drain.
E) amount of water in a bathtub.

62) Private disposable income is equal to 62) _______
A) $Y + NFP + TR + INT - T$.
B) $Y - NFP - R - INT + T$.
C) $Y + CA - G$.
D) $Y + TR + INT - T$.
E) $Y - TR - INT + T$.

63) Suppose that GDP is equal to 1,000, national saving is equal to 200, the current account deficit is equal to 100, and the government budget deficit is equal to 50. Private savings must equal 63) _______
A) 300. B) 250. C) 200. D) 350. E) 150.

64) Suppose that GDP is equal to 1,000, national saving is equal to 200, the current account deficit is equal to 100, and the government budget deficit is equal to 50. Investment must equal 64) _______
A) 300. B) 350. C) 150. D) 250. E) 200.

65) Suppose that in a given country in a given year, GNP equals $2,000, investment expenditures equal $200, government expenditures equal $150, and the current account surplus equals $50. Consumption expenditures therefore equals 65) ______

A) $140. B) $160. C) $1,000. D) $120. E) $230.

66) Additions to the nation's capital stock are brought about through 66) ______

A) investment and the current account surplus.
B) the current account surplus.
C) investment and the government budget surplus.
D) investment.
E) government deficit.

67) National savings must equal 67) ______

A) $I + NX + NFP$.
B) $Y - NFP + C + G$.
C) $T - TR - INT - G$.
D) $Y_d - C$.
E) $I - NX - NFP$.

68) The unemployment rate equals 68) ______

A) $\frac{\text{number unemployed}}{\text{labour force}}$.

B) $\frac{\text{labour force}}{\text{number unemployed}}$.

C) $\frac{\text{number unemployed}}{\text{number employed - number unemployed}}$.

D) $\frac{\text{labour force}}{\text{total working age population}}$.

E) $\frac{\text{number unemployed}}{\text{total working age population}}$.

69) The participation rate equals 69) ______

A) $\frac{\text{number employed}}{\text{total working age population}}$.

B) $\frac{\text{number unemployed}}{\text{total working age population}}$.

C) $\frac{\text{labour force}}{\text{number unemployed}}$.

D) $\frac{\text{number unemployed}}{\text{labour force}}$.

E) $\frac{\text{labour force}}{\text{total working age population}}$.

70) The employment/population ratio equals 70) ______

A) $\frac{\text{unemployment}}{\text{total working age population}}$.

B) $\frac{\text{labour force}}{\text{total working age population}}$.

C) $\frac{\text{labour force}}{\text{unemployment}}$.

D) $\frac{\text{employment}}{\text{employment - unemployment}}$.

E) $\frac{\text{employment}}{\text{total working age population}}$.

71) Discouraged workers are 71) ______

A) those who quit working because they are dissatisfied with their jobs.
B) those who only work in the summer months.
C) those who have given up looking for work, even though they would like to be employed.
D) those who would like to find a second job to supplement their income, but have not yet found one.
E) those who unmotivated workers who bring down a country's productivity.

72) When an unemployed worker becomes discouraged and leaves the labour force 72) ______

A) the employment/population ratio increases.
B) the employment/population ratio decreases.
C) the unemployment rate decreases.
D) the unemployment rate increases.
E) the labour force participation rate increases.

73) Problems with interpreting the unemployment rate as a measure of labour market tightness include 73) ______

A) discouraged workers and variations in how intensively the unemployed search for work.
B) variations in how intensively the unemployed search for work and biases in the CPI.
C) biases in the CPI and dissatisfied workers.
D) the rental vacancy rate.
E) dissatisfied workers and discouraged workers.

Answer Key
Testname: UNTITLED2

1) D
2) A
3) A
4) B
5) A
6) D
7) C
8) D
9) D
10) C
11) D
12) E
13) A
14) D
15) D
16) D
17) C
18) A
19) B
20) E
21) D
22) C
23) E
24) B
25) B
26) A
27) E
28) B
29) D
30) A
31) D
32) D
33) B
34) D
35) B
36) D
37) D
38) A
39) B
40) D
41) A
42) D
43) A
44) B
45) A
46) C
47) B
48) E
49) C
50) E

51) C
52) C
53) A
54) A
55) C
56) E
57) A
58) B
59) GDP could be mismeasured because of the existence of the underground economy, and because there are no market prices for the government's contribution to GDP. The NIEA measures only market activity, so if there are illegal transactions involving drugs and prostitution, for example, these will go unrecorded, as will cash transactions and barter transactions designed to avoid taxation. All of this illegal activity falls under the umbrella of "underground" activities. As well, when the government produces goods and services, what is recorded in GDP are the wages and salaries paid to employees. But this could overvalue some government goods and services, and undervalue some others.
60) C
61) D
62) A
63) B
64) A
65) B
66) D
67) A
68) A
69) E
70) E
71) C
72) C
73) A