QUESTIONS FOR REVIEW

Questions for Review 1

GDP is officially measured by adding together:

a the quantity of each good and service produced by domestic residents.

b the market value of all final goods and services produced within the borders of a nation.

c incomes received by a nation's households.

d gross national product and depreciation of resources.

Questions for Review 2

Real GDP measures:

a current year output at current year prices.

b current year output at base year prices.

c base year output at current year prices.

d base year output at current exchange rates.

Questions for Review 3

Inflation means that:

a all prices are rising, but at different rates.

b all prices are rising and at the same rate.

c prices in the aggregate are rising, although some particular prices may be falling.

d real incomes are rising.

Questions for Review 4

Net exports are negative when:

a a nation's imports exceed its exports.

b the economy's stock of capital goods is declining.

c depreciation exceeds domestic investment.

d a nation's exports exceed its imports.

Questions for Review 5

If intermediate goods and services were included in GDP:

a the GDP would then have to be deflated for changes in the price level.

b nominal GDP would exceed real GDP.

c the GDP would be overstated.

d the GDP would be understated.

Questions for Review 6

GDP can be calculated by summing:

a consumption, investment, government purchases, exports and imports.

b investment, government purchases, consumption and net exports.

c consumption, investment, wages and rents.

d consumption, investment, government purchases and imports.

Questions for Review 7

If the size of the underground economy increases both absolutely and relatively over time then:

a real GDP will rise more rapidly than nominal GDP.

b GDP will tend to increasingly understate the level of output through time.

c GDP will tend to increasingly overstate the level of output through time.

d the accuracy of GDP will be unaffected through time.

Questions for Review 8

The GDP Deflator:

a includes fewer goods and services than the consumer price index.

b is identical to the consumer price index.

c is another term for the producer price index.

d includes all goods comprising the nation's domestic output.

Questions for Review 9

Suppose your nominal income this year is 5 percent higher than last year. If the inflation rate for the period was 3 percent, then your real income:

a increased by 1.67 percent.

b increased by 2 percent.

c increased by 8 percent.

d declined by 0.6 percent.

Questions for Review 10

Most economists conclude that the consumer price index:

a understates inflation.

b overstates inflation.

c artificially boosts real GDP.

d is irrelevant to most consumers.

Questions for Review 11

If the CPI was 160 in 1998 and 40 in 1975, the cost of living was:

a 4 times higher in 1998 than in 1975.

b 25 percent higher in 1998 than in 1975.

c constant over the period.

d 4 times lower in 1998 than in 1975.

Questions for Review 12

If the nominal GDP is $576 and the price index is 120, then the real GDP is:

a $512

b $428

c $480

d $691

Questions for Review 13

The CPI (using a 1982 base year) for 1951 is 26.0. Suppose a household's annual take-home pay in 1951 was $8,320. What would be an equivalent home pay in 1982?

a $10,483

b $21, 632

c $23, 680

d $32,000

Questions for Review 14

If the CPI in 2001 was 200 and the CPI for 2002 was 220, the rate of inflation was:

a 10 percent.

b 7.5 percent.

c 30 percent.

d 230 percent.

Questions for Review 15

The consumer price index (CPI):

a uses a fixed market basket set in the base year for all subsequent years.

b is also called the GDP price index.

c measures changes in the prices of a market basket of some 50,000 goods and services.

d is adjusted annually for changes in consumer spending patters.

Questions for Review 16

Suppose the rate of inflation for some specific year was 10 percent. If the CPI for that year was 139.7, the previous year's CPI must have been:

a 100

b 129.7

c 127

d 153.7

Questions for Review 17

Only three goods are produced in an economy in the following amounts: A = 10, B = 30, C = 5. The current year per unit prices of these three goods are A = $2, B = $3 and C = $1.

Nominal GDP in the current year is:

a $110

b $115

c $45

d $90

Questions for Review 18

Only three goods are produced in an economy in the following amounts: A = 10, B = 30, C = 5. The current year per unit prices of these three goods are A = $2, B = $3 and C = $1. If the per unit prices of the three goods each were $1 in a base year, then the GDP price index in the current year is:

a 205.5

b 255.5

c 39.3

d 100

Questions for Review 19

Only three goods are produced in an economy in the following amounts: A = 10, B = 30, C = 5. The current year per unit prices of these three goods are A = \$2, B = \$3 and C = \$1. If the per unit prices of the three goods each were \$1 in a base year, then real GDP in the current year is:

a \$110

b \$115

c \$45

d cannot be determined on the basis of this data.

Questions for Review 20

Suppose a market basket of goods and services costs $400 in the base year and the consumer price index (CPI) is currently 125. This indicates the price of the market basket of goods is:

a $275

b $425

c $500

d $525

Questions for Review 21

A product has utility if it:

a takes more and more resources to produce successive units of it.

b violates the law of demand.

c satisfies consumer wants.

d is useful.

Questions for Review 22

The substitution bias is believed to cause the consumer price index to:

a overstate the true rate of inflation.

b understate the true rate of inflation.

c understate the true GDP deflator.

d none of the above.

Questions for Review 23

Which of the following can create demand-pull inflation?

a excessive aggregate spending.

b sharply rising oil prices.

c higher labor costs.

d recessions and depressions.

Questions for Review 24

Cost-push inflation is due to:

a “too much money chasing too few goods”

b the economy operating at full-employment.

c increases in production costs.

d all of the above.

Questions for Review 25

Environmental pollution is accounted for in:

a GDP

b GNP

c CPI

d none of the above.

Questions for Review 26

Units consumed	Total utility	Marginal utility
0	0	
1	W	20
2	35	X
3	Y	10
4	40	Z

Refer to the data above. The value for W is:

a 20

b 25

c 30

d 40

Questions for Review 27

Units consumed	Total utility	Marginal utility
0	0	
1	W	20
2	35	X
3	Y	10
4	40	Z

Refer to the data above. The value for Y is:

a 25

b 30

c 40

d 45

Questions for Review 28

Units consumed	Total utility	Marginal utility
0	0	
1	W	20
2	35	X
3	Y	10
4	40	Z

Refer to the data above. The value for X is:

a 15

b 5

c 55

d 10

Questions for Review 29

Units consumed	Total utility	Marginal utility
0	0	
1	W	20
2	35	X
3	Y	10
4	40	Z

Refer to the data above. The value for Z is:

a - 5

b 5

c 10

d none of the above

Questions for Review 30

Units consumed	Total utility	Marginal utility
0	0	
1	**20**	20
2	35	**15**
3	**45**	10
4	40	**- 5**

The above data illustrate the:

a law of comparative advantage.

b law of diminishing marginal utility.

c utility-maximizing rule.

d law of increasing opportunity costs.

ANSWER KEY

1	b	16	c
2	b	17	b
3	c	18	b
4	a	19	c
5	c	20	c
6	b	21	c
7	b	22	a
8	d	23	a
9	b	24	c
10	b	25	d
11	a	26	a
12	c	27	d
13	d	28	a
14	a	29	a
15	a	30	b