

\_\_\_\_ 1. Suppose that the nominal value of GDP increased by approximately 2 percent during a given year, but real GDP decreased by 3 percent. Which of the following best explains these events?

- The money supply decreased by approximately 5 percent.
- Prices fell by approximately 5 percent.
- Prices increased by approximately 5 percent.
- The real productive capacity of the economy increased by approximately 5 percent.

\_\_\_\_ 2. If a local shop buys a used motorcycle for \$1,000, refurbishes it, and resells it for \$2,500, the

- shop contributes value added equal to \$1,500, but nothing is added to GDP.
- shop contributes value added equal to \$1,500, and consequently \$1,500 is added to GDP.
- shop contributes nothing to production because only existing goods are involved.
- shop contributes value added equal to \$2,500, but only \$1,500 is added to GDP.

\_\_\_\_ 3. If a small municipal government buys \$5,000 worth of business supplies, spends \$55,000 to hire an administrator, and spends \$26,000 for a new automobile used by the administrator, this municipal government's contribution to GDP is

- \$0.
- \$55,000.
- \$60,000.
- \$86,000.

Use the table below to choose the correct answer.

Table 7-3

Personal consumption expenditures \$600

Government consumption and gross investment 230

Rent income 150

Net investment expenditures 200

Gross imports 30

Personal savings 250

Gross exports 20

Depreciation (private sector) 100

\_\_\_\_ 4. Refer to Table 7-3. Gross domestic product equals

- \$1,100.
- \$1,120.
- \$1,190.
- \$1,220.

\_\_\_\_ 5. Suppose the consumer price index (CPI) stands at 250 this year. If the inflation rate is 10 percent, then next year's CPI will equal

- 250.
- 260.
- 275.
- 500.

\_\_\_\_ 6. A price index is designed to measure

- changes in the general level of employment across time periods.

- b. changes in the quantity of output produced across time periods.
- c. the market value of output produced during the current period with the value of output produced during an earlier time period.
- d. the cost of buying a market basket of goods at a point in time relative to the cost of buying the same market basket during an earlier time period.

\_\_\_\_ 7. The consumer price index (CPI) and the GDP deflator are designed to measure the degree to which

- a. there have been changes in the proportions of national income generated by (and thus earned by) the rich relative to the poor.
- b. the cost of purchasing a bundle of goods has changed over time.
- c. consumption patterns have changed with time.
- d. consumer prices have risen over and above increases in worker wages.

\_\_\_\_ 8. If a used-car dealer purchases a used car for \$1,000, restores it, and resells it for \$1,500, the dealer contributes

- a. value added equal to \$500, but nothing is added to GDP.
- b. value added equal to \$500, and consequently \$500 is added to GDP.
- c. nothing to production because only existing goods are involved.
- d. value added equal to \$1,500, but only \$500 is added to GDP.

Answers:

1. C
2. B
3. D
4. B
5. C
6. D
7. B
8. B