2.1 National Income Accounting

4) The Bigdrill company drills for oil, which it sells for $200 million to the Bigoil company to be made into gas. The Bigoil company's gas is sold for a total of $600 million. What is the total contribution to the country's GDP from companies Bigdrill and Bigoil?
   A) $200 million
   B) $400 million
   C) $600 million
   D) $800 million
   Answer: C
   Diff: 2
   Topic: Section 2.1
   Question Status: Previous Edition

6) The Compagnie Naturelle sells mounted butterflies, using butterfly bait it buys from another firm for $20,000. It pays its workers $35,000, pays $1000 in taxes, and has profits of $3000. What is its value added?
   A) $3000
   B) $19,000
   C) $39,000
   D) $59,000
   Answer: C
   Diff: 2
   Topic: Section 2.1
   Question Status: Previous Edition

2.2 Gross Domestic Product

5) Because government services are not sold in markets,
   A) they are excluded from measurements of GDP.
   B) the government tries to estimate their market value and uses this to measure the government's contribution to GDP.
   C) they are valued at their cost of production.
   D) taxes are used to value their contribution.
   Answer: C
   Diff: 1
   Topic: Section 2.2
   Question Status: Previous Edition

8) Marvin's Metal Company produces screws that it sells to Ford, which uses the screws as a component of its cars. In the national income accounts, the screws are classified as
   A) inventory.
   B) final goods.
   C) capital goods.
   D) intermediate goods.
   Answer: D
10) Fred the farmer purchased five new tractors at $20,000 each. Fred sold his old tractors to other farmers for $50,000. The net increase in GDP of these transactions was
   A) $50,000.
   B) $100,000.
   C) $125,000.
   D) $150,000.
   Answer: B

11) Inventories include each of the following EXCEPT
   A) unsold finished goods.
   B) goods in process.
   C) raw materials held by firms.
   D) office equipment.
   Answer: D

15) If C = $500, I = $150, G = $100, NX = $40, and GNP = $800, how much is NFP?
   A) -$10
   B) -$5
   C) $5
   D) $10
   Answer: D

18) Consumer spending is spending by ______ households on final goods and services produced _______.
   A) domestic; domestically and abroad
   B) domestic; domestically
   C) domestic and foreign; domestically and abroad
   D) domestic and foreign; domestically
   Answer: A

19) In the expenditure approach to GDP, which of the following would be excluded from measurements of GDP?
   A) Government payments for goods produced by foreign firms
   B) Government payments for goods produced by firms owned by state or local governments
   C) Government payments for welfare
   D) All government payments are included in GDP
   Answer: C
23) Private disposable income equals
   A) GNP - taxes + transfers + interest.
   B) NNP - taxes + transfers + interest.
   C) national income - taxes + transfers + interest.
   D) national income - taxes - transfers + interest.
   Answer: A
   Diff: 2

2.3 Saving and Wealth

2) In a given year, a country’s GDP = $9841, net factor payments from abroad = $889, taxes = $869, transfers received from the government = $296, interest payments on the government’s debt = $103, consumption = $8148, and government purchases = $185. The country had private saving equal to
   A) $285.
   B) $3850.
   C) $2397.
   D) $2112.
   Answer: D
   Diff: 2

6) The government budget surplus equals
   A) government purchases plus transfers.
   B) government receipts minus government outlays.
   C) government purchases minus net receipts.
   D) government purchases minus transfers.
   Answer: B
   Diff: 1

7) National saving equals private saving plus government saving, which in turn equals
   A) C + S + T.
   B) GDP + C + G.
   C) GDP + NFP.
   D) GDP + NFP - C - G.
   Answer: D
   Diff: 2

8) The uses-of-saving identity says that an economy’s private saving is used for
   A) investment, interest expenses, and the government budget deficit.
   B) investment, the government budget deficit, and the current account.
   C) investment, interest expenses, the government budget deficit, and the current account.
D) investment, interest expenses, the government budget deficit, transfer payments, and the current account.
Answer: B
Diff: 1
Topic: Section 2.3
Question Status: Previous Edition

10) Suppose that private saving is $1590 billion, investment is $1945 billion, and the current account balance is -$489 billion. From the uses-of-saving identity, how much is government saving?
    A) -$134 billion
    B) -$844 billion
    C) $844 billion
    D) $134 billion
Answer: A
Diff: 3
Topic: Section 2.3
Question Status: Revised

11) Suppose that national saving is $1456 billion, investment is $1945 billion, and private saving is $1590 billion. How much is the current account balance?
    A) $489 billion
    B) $221 billion
    C) -$221 billion
    D) -$489 billion
Answer: D
Diff: 3
Topic: Section 2.3
Question Status: Revised

12) In the mid-to-late 1980s, the United States had "twin deficits" because both ______ and ______ were negative.
    A) government saving; private saving
    B) saving; investment
    C) the current account; investment
    D) government saving; the current account
Answer: D
Diff: 2
Topic: Section 2.3
Question Status: Previous Edition

2.4 Real GDP, Price Indexes, and Inflation

2) The value of real GDP in the current year equals
    A) the value of current-year output in prices of the base year.
    B) the value of current-year output in prices of the current year.
    C) the value of base-year output in prices of the base year.
    D) the value of base-year output in prices of the current year.
Answer: A
Diff: 1
Topic: Section 2.4
Question Status: Previous Edition

4) The country of Old Jersey produces milk and butter, and it has published the following macroeconomic data,
where quantities are in gallons and prices are dollars

<table>
<thead>
<tr>
<th>Good</th>
<th>Quantity</th>
<th>Price</th>
<th>Quantity</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milk</td>
<td>500</td>
<td>$2</td>
<td>900</td>
<td>$3</td>
</tr>
<tr>
<td>Butter</td>
<td>2000</td>
<td>$1</td>
<td>3000</td>
<td>$2</td>
</tr>
</tbody>
</table>

Between Year 1 and Year 2, the GDP deflator (based on Year 1 as a base year) rose

A) 60.00%.  
B) 81.25%.  
C) 83.33%.  
D) 123.00%.
Answer: B

Diff: 3  
Topic: Section 2.4  
Question Status: Revised

6) If nominal GDP for 2003 is $6400 billion and real GDP for 2004 is $6720 billion (in 2003 dollars), then the growth rate of real GDP is

A) 0%.  
B) 0.5%.  
C) 5%.  
D) 50%.
Answer: C

Diff: 2  
Topic: Section 2.4  
Question Status: Previous Edition

14) If the price index last year was 1.0 and today it is 1.4, what is the inflation rate over this period?

A) -4%  
B) 1.4%  
C) 4%  
D) 40%
Answer: D

Diff: 2  
Topic: Section 2.4  
Question Status: Previous Edition

19) The CPI may overstate inflation for all the following reasons EXCEPT

A) problems measuring changes in the quality of goods.  
B) substitution by consumers towards cheaper goods.  
C) problems measuring the quality of services.  
D) changes in Social Security benefits.
Answer: D

Diff: 1  
Topic: Section 2.4  
Question Status: Previous Edition

2.5 Interest Rates
The expected real interest rate \((r)\) is equal to
A) nominal interest rate minus inflation rate.
B) nominal interest rate minus expected inflation rate.
C) expected nominal interest rate minus inflation rate.
D) nominal interest rate plus expected inflation rate.
Answer: B

Diff: 1
Topic: Section 2.5
Question Status: Previous Edition

4) In 2004, inflation exceeded expected inflation. In 2005, expected inflation exceeded inflation. Therefore the real interest rate was _______ than the expected real interest rate in 2004 and the real interest rate was _______ than the expected real interest rate in 2005.
   A) less; less
   B) less; greater
   C) greater; less
   D) greater; greater
Answer: B

Diff: 2
Topic: Section 2.5
Question Status: New

5) If the expected inflation rate was 2.5%, the expected real interest rate was 4.0%, and the actual inflation rate turned out to be 3.2%, then the real interest rate equals
   A) 1.7%.
   B) 3.2%.
   C) 3.3%.
   D) 4.7%.
Answer: C

Diff: 2
Topic: Section 2.5
Question Status: New