

Macroeconomic Principles
Second Exam — Spring 2007
Schellberg

PART I (60 Points)

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- _____ I. GDP is:
- the total value of all consumer expenditures within a given period.
 - national income after taxes.
 - the total value of all final goods and services plus intermediate goods and services produced domestically within a given period.
 - the value of all final goods and services produced domestically within a given period.
 - the total value of all final goods and services minus the value of intermediate goods and services produced domestically within a given period.
2. An example of an intermediate product is:
- the purchase of tires by Ford Motor Company to put on its Ford Explorers.
 - the purchase of wood by a home construction firm.
 - the purchase of leather by a shoe manufacturer.
 - All of the above are examples of intermediate products.
3. Which of the following is included in the calculated Gross Domestic Product?
- Mr. Kelly buys a used lawn mower from his neighbor Mr. Templeton.
 - A local ice cream store sells \$17,000 worth of cones and sundaes on July 4th.
 - Suzanne buys a love seat and chair for \$85 at the yard sale on the corner.
 - Farmer Fred sells his second tractor to his son.
- _____ 4. GDP is calculated including:
- intermediate products but not final products.
 - manufactured goods but not services.
 - final products but not intermediate products.
 - only good purchased by consumers in a given year.
- _____ 5. The expenditure approach to GDP accounting includes:
- consumption.
 - investment.
 - government purchases.
 - net exports.
 - all of the above.
6. Net exports are defined as:
- exports plus imports.
 - exports minus imports.
 - imports minus exports.
 - exports plus imports minus tariffs.
7. Included in the investment category under the expenditure approach to GDP accounting is (are):
- additions to inventory.
 - machines and tools.
 - newly constructed residential housing.
 - all of the above.

8. The investment component of GDP includes:
 - a. funds in individual retirement accounts.
 - b. construction of a new steel mill.
 - c. the sale of shares of Coca-Cola stock.
 - d. the purchase of a refrigerator by a household.

9. A negative amount of net exports in the GDP expenditures accounting means:
 - a. exports are less than imports.
 - b. imports are less than exports.
 - c. the sum of this period's exports and imports has declined from the previous period.
 - d. net exports have declined from the previous period.
 - e. none of the above.

10. National income:
 - a. is a measure of the income earned by owners of resources used in making final goods and services.
 - b. is a measure of the income received by persons after taxes.
 - c. equals aggregate income minus the statistical discrepancy.
 - d. equals GDP minus depreciation.
 - e. measures the total amount of income received by households and noncorporate businesses.

11. Disposable income is:
 - a. a measure of the market value of total output.
 - b. a measure of the income households have to spend before paying taxes.
 - c. a measure of the income households have to spend after paying taxes.
 - d. a measure of household income from investment income such as dividends and capital gains.

12. The Consumer Price Index (CPI) measures changes in prices of:
 - a. all the goods and services included in the Gross Domestic Product.
 - b. certain important commodities, including wheat, crude oil, and tin.
 - c. certain goods and services purchased for consumption purposes.
 - d. goods produced abroad but sold in the United States.

13. Which is the most accurate statement about the consumer price index?
 - a. When the consumer price index increases, the average family has to spend more to maintain their standard of living.
 - b. When the consumer price index increases, the average family has to spend less to maintain their standard of living.
 - c. When the consumer price index increases, the standard of living of the average family does not change.
 - d. The consumer price index is a broader measure of inflation than is the GDP deflator.

14. A price index can be constructed by:
 - a. dividing the value of a market basket by the rate of inflation.
 - b. dividing the current-year value of a market basket by the base-year value of the same market basket and multiplying by 100.
 - c. multiplying the value of a market basket by the rate of inflation.
 - d. multiplying the current-year value of a market basket by the base-year value of the same market basket and dividing by 100.

15. The CPI in year 1 (the base year) equals 100 and in year 2 equals 106. It can be concluded that:
- the rate of inflation from year 1 to year 2 equals +106 percent.
 - the rate of inflation from year 1 to year 2 equals +6 percent.
 - the rate of inflation from year 1 to year 2 equals -6 percent.
 - national income has increased by 6 percent from year 1 to year 2.
 - national income has decreased by 6 percent from year 1 to year 2.
16. For any given year, the CPI is:
- the price of the basket of goods and services in the given year divided by the price of the basket in the base year, then multiplied by 100.
 - must always be higher than the previous year.
 - the price of the basket of goods and services in the base year divided by the price of the basket in the given year, then multiplied by 100.
 - the price of the basket of goods and services in the base year divided by the price of the basket in the given year, then divided by 100.
17. The current cost of a market basket of goods is \$9,000. The cost of the same basket of goods in the base year was \$3,000. The current price index is:
- 900.
 - 300.
 - 166.
 - 133.
 - 33.
18. Suppose that nominal GDP did not change in 2001, and real GDP decreased, relative to the year 2000. It can be concluded that:
- total production of goods and services in the economy did not change in 2001.
 - the economy experienced deflation during 2001.
 - the price level did not change during 2001.
 - total production of goods and services in the economy declined during 2001.
 - both b) and d) are correct.
19. In some rural regions of the United States, residents harvest much of their food supplies directly from nature by hunting, fishing, and gathering. With regard to these subsistence activities:
- GDP will overestimate the true value of the nation's production of final goods and services.
 - GDP will underestimate the true value of the nation's production of final goods and services only when the income approach is used.
 - GDP will correctly estimate the true value of the nation's production of final goods and services.
 - GDP will underestimate the true value of the nation's production of final goods and services.
20. The standard of living will increase if:
- nominal GDP grows at a faster rate than real GDP.
 - nominal GDP grows at a slower rate than real GDP.
 - the rate of population growth exceeds the rate of growth of real GDP.
 - the rate of population growth is less than the rate of growth of real GDP.
21. If real GDP is increasing more rapidly than the population, then:
- interest rates must be falling.
 - the economy must be experiencing inflation.
 - per capita real GDP will be increasing.
 - per capital real GDP will be decreasing.

22. Which of the following is not a component of aggregate demand?
- Investment expenditures
 - Government expenditures
 - Net exports
 - Consumption
 - All of the above are components of aggregate demand.
23. Aggregate demand can be defined as:
- the total spending by all consumers, business firms, government agencies, and foreigners in the United States.
 - the total amounts that all consumers, business firms, government agencies, and foreigners wish to spend on final American goods and services at various price levels.
 - the total spending by consumers, business firms, and government agencies in one year.
 - the total spending by consumers, business firms, and government agencies on final goods and services.
24. If our exports of final goods and services increase more than our imports, other things being equal, aggregate demand will:
- increase.
 - be negative.
 - decrease by the change in net exports.
 - stay the same.
 - do none of the above.

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PART II (40 points)

1. (10 points) GDP is not a perfect measure of economic well-being. Pick two of the following list. For each item you choose, discuss the source of mismeasurement of economic well-being. Does each of these contribute to well-being?
 - a. Home production
 - b. Economic bads
 - c. Leisure
 - d. Underground economy
 - e. Unequal income distribution
 - f. Quality of life (e.g. happy home life, good health etc.)

2. (12 points)

- a. Find the total consumer expenditure for the following market basket of goods, both in 2005 and 2006. Show your work.

	Quantity	2005 Prices	2005 Expenditure	2006 Prices	2006 Expenditure
Meat	100 lbs.	\$3.00/lb		\$3.20/lb.	
Clothing	15 units	\$20/unit		\$20/unit	
Gasoline	200 gal.	\$2.50/gal.		\$2.80/gal.	

- b. If 2005 is the base year, find the consumer price index in 2005.

- c. Find the consumer price index in 2006. Show your work.

- d. Compute the inflation rate between 2005 and 2006. Show your work.

3. (18 points) The following national income data are available for the country of Malaria for the year 2005. All figures are in billions of Malari dollars.

	(\$billions)
Consumption	430
Savings	30
Depreciation	40
Indirect business taxes	20
Government transfer payments	50
Government purchases of goods and services	90
Profits	80
Wages and Salaries	240
Investment	110
Rental income	20
Change in inventories	30
Imports	40
Exports	70
Interest	50
Proprietor's income	10

- a. Compute GDP by the output (expenditure) method. Show your work.
- b. Suppose the GDP deflator for 2005 is 110. Compute real GDP for 2005. Show your work.

- c. Suppose the population of Malaria is 1 billion in 2005. Compute real GDP per capita for 2005.
- d. Suppose real GDP grows by 10% between 2005 and 2015, but the population grows by 20%. What happens to the standard of living of the average citizen of Malaria? Explain.
- e. If nominal GDP was \$550 billion in the year 2000, the base year, we can conclude that prices have (pick one; increased, decreased) between 2000 and 2005, and the aggregate quantity of output produced has (pick one; increased, decreased) over this same period.

