

CHAPTER 2

NATIONAL INCOME ACCOUNTING

Difficulty: Easy

1. In calculating this year's GDP, national income accountants
 - A) include any increase in stock values
 - B) include an estimate for income from illegal activities
 - C) exclude Social Security payments to retirees
 - D) exclude the value of any repairs made on existing property
 - E) exclude the value of new pollution control equipment that is being installed

Ans: C

Difficulty: Medium

2. Assume you built a new house, bought a used car, and bought some government bonds. Which of the following is true?
 - A) consumption and government purchases went up since you bought a used car and government bonds
 - B) consumption and investment went up since you bought a used car and government bonds
 - C) investment and government purchases went up since you built a new house and bought government bonds
 - D) investment went up since you built a new house
 - E) consumption went up since you built a new house

Ans: D

Difficulty: Medium

3. Which of the following is FALSE?
 - A) U.S. GDP underestimates actual economic activity because it does not include underground activity
 - B) an increase in the ratio of currency holdings to bank deposits may be seen as evidence for an increase in underground activity
 - C) if the underground economy grows rapidly, then the rate of economic growth will be underestimated
 - D) as the underground economy grows, consumption spending decreases
 - E) underground activity includes income from services produced at home but not reported, such as typing someone else's term paper

Ans: D

Difficulty: Easy

4. Which of the following statements is true?

- A) NDP is greater than GDP if prices are falling
- B) NDP is greater than GDP if prices are rising
- C) NDP can be greater than GDP but only if the economy is growing
- D) NDP cannot be greater than GDP
- E) NDP must always be greater than GDP

Ans: D

Difficulty: Easy

5. Increases in unwanted business inventories are counted as

- A) a decrease in the capital stock
- B) an increase in consumption
- C) an increase in investment
- D) an increase in depreciation
- E) none of the above

Ans: C

Difficulty: Easy

6. The difference between gross domestic investment and net domestic investment is equal to

- A) unwanted inventory changes
- B) the difference between NDP and national income
- C) the addition to the capital stock
- D) the difference between GDP and NDP
- E) none of the above

Ans: D

Difficulty: Medium

7. Assume nominal GDP increased by 4.2% in the U.S. but by only 3.4% in Germany. We can definitely conclude that

- A) the standard of living of the people in the U.S. went up more than the standard of living of the people in Germany
- B) real economic growth in the U.S. was higher than in Germany
- C) inflation in the U.S. was 0.8% higher than in Germany
- D) productivity growth in the U.S. was higher than in Germany
- E) none of the above

Ans: E

Difficulty: Easy

8. Assume you deplete your savings to buy a new sofa and some government bonds and then take a vacation in a foreign country. Which of the following is true?

- A) consumption will increase
- B) net exports will increase
- C) government purchases will increase
- D) investment will increase
- E) all of the above

Ans: A

Difficulty: Easy

9. If gross investment were zero, which of the following would be true?

- A) the existing capital stock would stay the same
- B) net investment would be positive
- C) net investment would be negative
- D) depreciation would be zero
- E) depreciation would be negative

Ans: C

Difficulty: Easy

10. Depreciation is

- A) the difference between gross investment and net investment
- B) the difference between GDP and NDP
- C) the difference between GNP and NNP
- D) the consumption of fixed capital
- E) all of the above

Ans: D

Difficulty: Medium

11. If we counted the value of autoworkers' salaries, wheels, tires, steel, body parts, and final car sales in calculating GDP, then we would be

- A) understating GDP by overlooking car dealers' profits
- B) ignoring the contribution of capital to output
- C) overstating GDP through double counting
- D) using the value-added technique for calculating GDP
- E) calculating GDP correctly only if we excluded any imported cars

Ans: C

Difficulty: Medium

12. The difference between gross investment and net investment is
- A) the same as the difference between GDP and disposable income
 - B) the same as the difference between disposable income and consumption
 - C) the same as the difference between NDP and national income
 - D) the same as the difference between net and gross exports
 - E) equal to capital consumption allowances

Ans: E

Difficulty: Easy

13. In the United States, annual per-capita GDP in 2012 was around
- A) \$15,700
 - B) \$38,400
 - C) \$49,800
 - D) \$54,200
 - E) \$58,600

Ans: C

Difficulty: Easy

14. As defined in our text, private domestic investment (I) does NOT include
- A) new residential construction except on farms
 - B) movable machinery such as trucks or tractors
 - C) inventory accumulation, unless it was planned or intended
 - D) investment in labor productivity through education and training
 - E) new additions to existing factories

Ans: D

Difficulty: Medium

15. Assume a U.S. dealer bought 100 TVs from South Korea for \$250 each in 2012. He subsequently sold 80 of them in 2012 for \$450 each, and the rest in 2013 for \$400 each. By how much was the U.S. GDP affected in 2012?
- A) \$45,000
 - B) \$36,000
 - C) \$19,000
 - D) \$16,000
 - E) \$11,000

Ans: D

Difficulty: Easy

16. In 1994, U.S. GDP was \$6,931, GNP was \$6,922, NNP was \$6,104, and national income was \$5,495 (all numbers are in billions of dollars). We can conclude that

- A) depreciation was \$818 billion
- B) depreciation was \$1,436 billion
- C) the addition to the capital stock was \$1,436 billion
- D) the addition to the capital stock was \$1,427 billion
- E) indirect business taxes were \$9 billion

Ans: A

Difficulty: Medium

17. For a simple economy with no depreciation, no government, and no foreign sector, which of the following identities would be correct?

- A) $Y \equiv C$
- B) $C - I \equiv S$
- C) $Y - C \equiv S$
- D) $Y - C \equiv S + I$
- E) $Y \equiv C + S - I$

Ans: C

Difficulty: Medium

18. Which of the following identities is FALSE?

- A) $Y \equiv C + I + G + NX$
- B) $YD \equiv Y - TA + TR$
- C) $BS \equiv TA - TR - G$
- D) $I - S \equiv (G - TA + TR) + NX$
- E) $S + TA - TR \equiv I + G + NX$

Ans: D

Difficulty: Easy

19. If private domestic saving in an economy increases, which is the most likely to occur?

- A) a decrease in the budget deficit
- B) a decrease in net exports
- C) an increase in consumption
- D) an increase in imports
- E) an increase in private domestic investment

Ans: E

Difficulty: Medium

20. Assume the budget deficit increases. Which of the following can happen?

- A) private domestic saving can increase
- B) private domestic investment can decrease
- C) imports can increase
- D) exports can decrease
- E) all of the above

Ans: E

Difficulty: Medium

21. If the government increases taxes, which of the following is LEAST likely to occur?

- A) a decrease in private domestic saving
- B) a decrease in consumption
- C) an increase in private domestic investment
- D) a decrease in net exports
- E) a decrease in national income

Ans: D

Difficulty: Medium

22. Assume that $GDP = 4,800$, consumption = 3,400, private domestic savings = 400, government purchases = 1,200, and net exports = -120. Which of the following is true?

- A) disposable income is 3,800
- B) private domestic investment is 320
- C) the budget deficit is 200
- D) all of the above
- E) only A) and C)

Ans: D

Difficulty: Medium

23. If private domestic saving is 960, private domestic investment is 780, and the government spends 300 more than it receives in tax revenues, then it follows that

- A) the trade deficit is 120
- B) the trade deficit is 300
- C) the trade deficit is 420
- D) the trade surplus is 120
- E) the trade surplus is 180

Ans: A

Difficulty: Medium

24. Assume that $GDP = 8,100$, consumption = 5,400, gross private domestic investment = 1,200, government purchases = 1,600. Which of the following is true?

- A) imports exceed exports by 100
- B) exports exceed imports by 100
- C) depreciation is 100
- D) the trade surplus is 100
- E) both B) and D)

Ans: A

Difficulty: Medium

25. Assume exports = 300, imports = 400, tax revenues = 1,100, government purchases = 1,400, private domestic saving = 900. Then the level of private domestic investment is

- A) 600
- B) 700
- C) 900
- D) 1,100
- E) 1,300

Ans: B

Difficulty: Easy

26. If imports increase by \$15 billion, which of the following has to happen for GDP to rise?

- A) consumption has to increase by more than \$15 billion
- B) government purchases have to increase by more than \$15 billion
- C) private domestic investment has to increase by more than \$15 billion
- D) private domestic saving has to increase by more than \$15 billion
- E) either A), B), or C) would be sufficient to increase GDP

Ans: E

Difficulty: Easy

27. As a percentage of GNP, the U.S. federal debt

- A) sharply increased in the 1980s, decreased in the 1990s, and increased again after 2000
- B) decreased steadily from World War II to the year 2000
- C) increased steadily from 1960 to 2013
- D) was never lower than 20 percent
- E) never exceeded 100 percent

Ans: A

Difficulty: Medium

28. If private domestic saving exceeds private domestic investment by \$220 billion and government spending exceeds tax revenue by \$340 billion, then

- A) the trade deficit is \$560 billion
- B) the trade surplus is \$560 billion
- C) the trade deficit is \$120 billion
- D) the trade surplus is \$120 billion
- E) the trade deficit is \$340 billion

Ans: C

Difficulty: Medium

29. If national income is 5,200, disposable income is 4,400, consumption is 4,100, the trade deficit is 110, and the budget deficit is 150, what is the level of private domestic investment?

- A) 1,060
- B) 540
- C) 300
- D) 260
- E) 40

Ans: D

Difficulty: Difficult

30. Assume government purchases = \$1,500, the budget deficit = \$120, consumption = \$4,800, private domestic saving = \$1,220, the trade deficit = \$90, and transfer payments = \$0. Which of the following is true?

- A) private domestic investment is \$1,190
- B) national income is \$7,400
- C) disposable income is \$6,020
- D) all of the above
- E) only A) and C)

Ans: D

Difficulty: Medium

31. If the U.S. budget deficit increased substantially while private domestic saving and private domestic investment remained roughly the same, then

- A) the U.S. imported more than it exported
- B) the U.S. exported more than it imported
- C) the U.S. must have experienced a major recession
- D) there must have been a major drop in U.S. interest rates
- E) all of the above

Ans: A

Difficulty: Difficult

32. Assume the budget deficit decreased by \$15 billion, private domestic saving decreased by \$20 billion, exports increased by \$10 billion, and imports increased by \$15 billion. By how much did private domestic investment change?

- A) private domestic investment decreased by \$10 billion
- B) private domestic investment increased by \$10 billion
- C) private domestic investment did not change at all
- D) private domestic investment decreased by \$20 billion
- E) the change in private domestic investment cannot be determined from this information

Ans: C

Difficulty: Medium

33. The budget deficits in the early 1980s were largely financed through

- A) an increase in private domestic saving
- B) an increase in private domestic investment
- C) an increase in net exports
- D) a decrease in net exports
- E) none of the above

Ans: D

Difficulty: Medium

34. If the budget surplus increases, which of the following is likely to happen?

- A) imports will increase more than exports
- B) exports will increase more than imports
- C) private domestic saving will increase more than private domestic investment
- D) private domestic investment will remain the same while private domestic saving will increase
- E) private domestic investment will decrease

Ans: B

Difficulty: Easy

35. If we look at U.S. net exports over the last four decades, we realize that

- A) the U.S. had consistent large trade deficits in the 1960s
- B) the U.S. never had a trade imbalance in the 1970s
- C) U.S. trade deficits decreased greatly in the early and mid 1980s
- D) the U.S. never had a trade surplus until after the year 2000
- E) U.S. trade deficits decreased substantially between 1997 and 2000

Ans: C

Difficulty: Medium

36. If the U.S. unemployment rate has increased, which of the following must have occurred?

- A) more workers have become discouraged and stopped looking for jobs
- B) more people have been forced to work in part-time rather than full-time jobs
- C) there has been an decrease in the work force as fewer job openings were listed
- D) more people have become only "marginally attached" to the work force
- E) none of the above

Ans: E

Difficulty: Easy

37. The PCE deflator measures

- A) the average price increase of raw materials purchased by producers
- B) the average price increase of energy prices
- C) price changes in consumer expenditures based on national income accounts
- D) price changes of final as well as semi-finished goods
- E) the average price increase of all final goods excluding energy

Ans: C

Difficulty: Easy

38. The GDP-deflator and the producer price index (PPI) differ since

- A) the PPI measures a fixed market basket but the GDP-deflator doesn't
- B) the GDP-deflator includes imported goods but the PPI doesn't
- C) the PPI includes more goods than the GDP-deflator
- D) the GDP-deflator does not include services but the PPI does
- E) the GDP-deflator measures increases in inflation earlier than the PPI

Ans: A

Difficulty: Easy

39. Assume that the prices of cars manufactured in the U.S. increases due to an increase in quality. Which of the following should happen if the same number of cars is produced?

- A) real GDP should increase but nominal GDP should stay the same
- B) nominal GDP should increase
- C) the GDP-deflator should decrease
- D) real GDP and the GDP-deflator should decrease
- E) all of the above

Ans: B

Difficulty: Medium

40. If nominal GDP was \$9,200 billion in Year 1 and \$9,420 billion in Year 2 and prices increased from Year 1 to Year 2, then

- A) real GDP was larger in Year 1 than in Year 2
- B) real GDP was larger in Year 2 than in Year 1
- C) the GDP-deflator must have been 122
- D) the GDP-deflator must have been 102
- E) we cannot determine the value of the GDP-deflator or real GDP in Year 2

Ans: E

Difficulty: Medium

41. If nominal GDP is \$8,820 billion and the GDP-deflator is 105, then real GDP is

- A) \$9,261 billion
- B) \$8,925 billion
- C) \$8,715 billion
- D) \$8,400 billion
- E) \$8,000 billion

Ans: D

Difficulty: Medium

42. If nominal GDP increased from \$8,000 billion in the base year to \$8,400 billion in the following year and real GDP stayed the same, which is true?

- A) the GDP-deflator increased from 100 to 110
- B) the GDP-deflator increased from 80 to 100
- C) the GDP-deflator increased from 100 to 120
- D) prices increased on average by 5 percent
- E) prices increased on average by 10 percent

Ans: D

Difficulty: Easy

43. If nominal GDP was about \$600 billion and real GDP was about \$2,400 billion in 1962, then the GDP-deflator for that year was

- A) 25
- B) 40
- C) 125
- D) 200
- E) 400

Ans: A

Difficulty: Easy

44. Assume nominal GDP was \$16.0 trillion in Year 1 and \$17.6 trillion in Year 2. If Year 1 is the base year, then

- A) the GDP-deflator is 110
- B) prices increased on average by 10 percent
- C) real GDP has not changed
- D) none of the above can be true
- E) both A) and B) are true, but only if C) is true

Ans: E

Difficulty: Easy

45. The unemployment rate is most likely to decrease if

- A) the number of people who are out of work but expecting to be recalled from a layoff increases
- B) the number of people living in the country increases
- C) the labor force decreases more than the overall population
- D) more people who are currently out of work decide to give up looking for a job
- E) none of the above

Ans: D

Difficulty: Easy

46. Which of the following is TRUE?

- A) core inflation excludes price changes for food and energy
- B) core inflation only includes price changes for food and energy
- C) core inflation is reported for the CPI but not the for the PCE deflator
- D) the PCE deflator measures the average price change of a market basket of consumer goods
- E) the PCE deflator only measures price changes in energy

Ans: A

Difficulty: Easy

47. The CPI, a price index used to measure inflation, is imperfect since

- A) it only measures those goods that are included in the market basket
- B) it does not take into account quality improvements
- C) many payments are already indexed for inflation
- D) it does not include services
- E) only A) and B)

Ans: E

Difficulty: Easy

48. The consumer price index (CPI) and the producer price index (PPI) differ from each other since

- A) the PPI includes import goods but the CPI doesn't
- B) the CPI usually rises sooner than the PPI
- C) the composition of their market baskets is different
- D) the PPI does not measure price increases of a fixed market basket
- E) the CPI never overestimates inflation but the PPI often does

Ans: C

Difficulty: Easy

49. If the nominal interest rate on a government bond is 6% and the rate of inflation is 4%, what is your real rate of return on this government bond?

- A) -2%
- B) +2%
- C) +4%
- D) +6%
- E) +10%

Ans: B

Difficulty: Easy

50. Assume you can exchange 10 Mexican pesos for one U.S. dollar, but you need only 0.64 British pounds to get one U.S dollar. What does this imply?

- A) product prices in Great Britain are much cheaper than in Mexico
- B) product prices in Great Britain are much more expensive than in Mexico
- C) you can get about 36 Mexican pesos for one British pound
- D) you can get about 64 Mexican pesos for one British pound
- E) none of the above

Ans: E