Chapter 2   A Tour of the Book

1) Which of the following phrases would be used when defining GDP for a given period?
A) final goods and services purchased by domestic households
B) final and intermediate goods and services, plus raw materials
C) final and intermediate goods and services
D) final and intermediate goods and services produced by the private sector only
E) final goods and services produced within the borders of a country
Answer: E
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-1

2) Using the income approach, the largest share of GDP goes to:
A) capital income.
B) indirect taxes.
C) indirect income.
D) labour income.
E) intermediate income.
Answer: D
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-1

3) In Canada, using 1997 as the base year, we would find that:
A) real GDP is smaller than nominal GDP from 1988 to 1995.
B) real GDP is always larger than nominal GDP for the period 1960 to 1990.
C) real GDP and nominal GDP would be equal for the entire period.
D) nominal GDP is always larger than real GDP.
E) real GDP is larger than nominal GDP from 1998 to 2002.
Answer: B
Diff: 1   Type: MC
Skill: Applied
Section Ref.: 2-1

4) Suppose nominal GDP increases in a given year. Based on this information, we know with certainty that:
A) the price level (GDP deflator) has increased.
B) real output has decreased and the price level has increased.
C) either real output or the price level (GDP deflator) have increased.
D) real output and the price level (GDP deflator) have both increased.
E) real output has increased.
Answer: C
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-1

5) If nominal GDP rises from $10 trillion to $12 trillion, while the GDP deflator rises from 2.0 to 2.2, the *percentage* change in real GDP is:
A) 9.1%.
B) 10%.
C) 1.1%.
D) -10%.
E) 20%.
Answer: A
Diff: 1   Type: MC
Skill: Applied
Section Ref.: 2-1

6) Hedonic pricing is:
A) the tendency for nominal GDP to rise when the price level rises.
B) the process of translating nominal GDP into real GDP.
C) the process of pricing individual characteristics of a good or service.
D) the way that luxury goods are priced in a market economy.
E) the tendency for the inflation rate to rise by greater and greater amounts.
Answer: C
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-1

7) Suppose that for the year 2005, a company spends $200 million on intermediate goods and $400 million on wages, with no other expenses. Also assume that its total sales are $900 million. The value added by this company is:
A) $300 million.
B) $200 million.
C) $500 million.
D) $800 million
E) $700 million.
Answer: E
Diff: 1   Type: MC
Skill: Applied
Section Ref.: 2-1

8) A firm's value added during the year is equal to its:
A) revenue minus wages and the cost of intermediate goods.
B) revenue minus all costs.
C) revenue minus the cost of intermediate goods.
D) revenue minus wages.
E) revenue minus wages and profit.
Answer: C
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-1

9) Suppose that in a given month in the United States, 200 million people are working, 20 million are not working but are looking for work, and 40 million are not working and have given up looking for work. The official unemployment rate for that month is:
A) 10%.
B) 30%.
C) 23%.
D) 7.7%.
E) 9.1%.
Answer: E
Diff: 1   Type: MC
Skill: Applied
Section Ref.: 2-2

10) In Canada, someone is classified as unemployed if he or she:
A) does not have a job.
B) does not have a job, and is collecting unemployment insurance.
C) does not have a job, or else has a job but is looking for a different one while continuing to work.
D) does not have a job and has recently looked for work.
E) none of the above
Answer: D
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-2

11) An individual is said to be a discouraged worker if he or she:
A) is working, but prefers not to work.
B) is working part time, but would prefer a full time job.
C) is working in jobs she/he is not suited for.
D) wants to work, but has given up searching for a job.
E) wants to work, and is actively searching for a job.
Answer: D
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-2

12) When the unemployment rate rises:
A) the number of employed workers tends to rise.
B) the labour force participation rate tends to fall.
C) the number of discouraged workers tends to fall.
D) the number of discouraged workers tends to remain constant.
E) the number of employed workers tends to remain constant.
Answer: B
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-2

13) Okun's Law indicates that there is an inverse relationship between:
A) the level of output and the inflation rate.
B) output growth and nominal GDP.
C) output growth and the inflation rate.
D) the level of output and value added.
E) output growth and unemployment.
Answer: E
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-2

14) In Canada, the labour force is which of the following?
A) the employed
B) the employed and the officially unemployed
C) the entire population
D) the employed, the officially unemployed, and discouraged workers
E) the entire population minus foreign workers
Answer: B
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-2

The next questions refer to the following data:

Suppose a country using the Canadian system of measuring unemployment statistics has 100 million people, of who 50 million are of working age. Of these 50 million, 20 million have jobs. Of the remainder: 10 million are actively searching for jobs; 10 million would like jobs but are *not* searching; and 10 million do *not* want jobs at all.

15) The labour force is:
A) 10 million.
B) 20 million.
C) 30 million.
D) 40 million.
E) 50 million.
Answer: C
Diff: 1   Type: MC
Skill: Applied
Section Ref.: 2-2

16) The labour force participation rate is _____.
A) 0.2
B) 0.3
C) 0.4
D) 0.5
E) 0.6
Answer: E
Diff: 1   Type: MC
Skill: Applied
Section Ref.: 2-2

17) The official unemployment rate is _____.
A) 0.1
B) 0.2
C) 0.33
D) 0.25
E) 0.50
Answer: C
Diff: 1   Type: MC
Skill: Applied
Section Ref.: 2-2

18) Which of the following represents what the GDP deflator measures?
A) real GDP divided by the aggregate price level
B) the rate at which GDP declines in a recession
C) the GDP in one country divided by the GDP in another country
D) the ratio of nominal GDP to real GDP
E) the price of a typical consumer's basket of goods
Answer: D
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-2

19) To calculate real GDP, one must:
A) divide nominal GDP by the consumer price index.
B) multiply nominal GDP by the GDP deflator.
C) divide nominal GDP by the GDP deflator.
D) divide the GDP deflator by the consumer price index.
E) multiply nominal GDP by the consumer price index.
Answer: C
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-1

20) Prices for which of the following are included in *both* the GDP deflator *and* the consumer price index?
A) investment goods
B) exports
C) consumption goods
D) government goods
E) capital goods
Answer: C
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-2

21) From the income side, GDP is _____ in the economy during a given period.
A) the sum of value added
B) the sum of incomes
C) the sum of taxes
D) the value of the final goods and services produced
E) the value of the final goods and services imported
Answer: B
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-1

22) The Phillips relation (and Phillips curve) illustrates the inverse relationship between:
A) the inflation rate and the aggregate price level.
B) the change in GDP and the unemployment rate.
C) the price level and the inflation rate.
D) GDP and the unemployment rate.
E) inflation rate and the unemployment rate.
Answer: E
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-2

23) One reason economists worry about inflation is that it causes:
A) nominal GDP to fall.
B) wages to rise as fast as prices.
C) relative prices to change.
D) real GDP to rise.
E) real GDP to exceed nominal GDP.
Answer: C
Diff: 1   Type: MC
Skill: Applied
Section Ref.: 2-3

24) In the short run, fluctuations in economic activity are caused primarily by changes in:
A) technology.
B) supply.
C) demand.
D) population.
E) monetary policy.
Answer: C
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-3

25) In the medium run, changes in GDP are caused mostly by changes in:
A) technology, supply and demand.
B) technology, supply and population.
C) technology, demand and government policy.
D) government policy, supply and demand.
E) technology, population and demand.
Answer: A
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-3

26) In the long run, changes in GDP are caused mostly by changes in:
A) monetary policy.
B) demand.
C) fiscal policy.
D) population.
E) technology.
Answer: E
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-3

27) Which of the following prices will be used when calculating the rate of growth of real GDP between the years 2001 and 2002 using the chain method?
A) the average of prices in 2001 and 2002
B) prices in the base year (1992)
C) prices in 2001
D) prices in 2002
E) either prices in 2001 or in 2002
Answer: A
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-2

28) Which of the following factors is NOT believed to affect output in the long run?
A) monetary policy
B) the capital stock
C) the size of the labour force
D) technology
E) fiscal policy
Answer: A
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-3

29) In the Canada in 2012, labour income accounts for approximately what share of GDP?
A) 25%
B) 33%
C) 40%
D) 45%
E) 60%
Answer: E
Diff: 1   Type: MC
Skill: Applied
Section Ref.: 2-2

30) In Canada in 2012, capital income accounts for approximately what share of GDP?
A) 10%
B) 20%
C) 30%
D) 40%
E) 50%
Answer: B
Diff: 1   Type: MC
Skill: Applied
Section Ref.: 2-1

31) Prices for which of the following are included in the GDP deflator, but NOT included in the Consumer Price Index?
A) intermediate goods and services
B) consumption goods and services
C) imports
D) firms' purchases of new equipment
E) capital goods
Answer: D
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-2

32) Macroeconomists are concerned about changes in the unemployment rate because changes in the unemployment rate provide information about:
A) the state of the economy and the welfare of those who are unemployed.
B) the state of the economy and government policies.
C) government programs and the welfare of those who are employed.
D) government policies and the welfare of those who are unemployed.
E) the state of the economy and the welfare of the country's population.
Answer: A
Diff: 1   Type: MC
Skill: Applied
Section Ref.: 2-3

33) Based on the notation presented in Chapter 2, which of the following expressions represents nominal GDP?
A) Y_t/P_t
B) Y_t
C) $\$Y_t/P_t$
D) P_tY_t
E) P_t/Y_t
Answer: D
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-2

34) The Phillips curve illustrates the relationship between:
A) changes in inflation and GDP growth.
B) changes in the inflation rate and the unemployment rate.
C) the unemployment rate and GDP growth.
D) changes in the unemployment rate and GDP growth.
E) changes in the unemployment rate and real GDP.
Answer: B
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-2

35) Suppose nominal GDP in 2003 increased by 6% (over its previous level in 2002). Given this information, we know that:
A) both the GDP deflator and real GDP increased during 2003.
B) the GDP deflator increased during 2003.
C) real GDP increased during 2003.
D) either output or prices increased in 2003.
E) only prices increased in 2003.
Answer: D
Diff: 2   Type: MC
Skill: Applied
Section Ref.: 2-1

36) During the late 1990s, Japan experienced reductions in the GDP deflator. Given this information, we know with certainty that:
A) the overall price level in Japan decreased during these periods.
B) real GDP did not change during these periods.
C) real GDP fell during these periods.
D) both real GDP and the overall price level decreased during these periods.
E) the overall price level in Japan increased during these periods.
Answer: A
Diff: 2   Type: MC
Skill: Applied
Section Ref.: 2-2

37) Hedonic pricing is used to:
A) calculate the difference between nominal GDP and real GDP.
B) convert nominal values to real values.
C) measure the rate of change in real GDP.
D) obtain chain-weight indexes.
E) estimate changes in the prices of particular goods.
Answer: E
Diff: 2   Type: MC
Skill: Recall
Section Ref.: 2-1

38) GDP in current dollars is equivalent to which of the following?
A) GDP in constant dollars
B) real GDP
C) GDP in terms of goods
D) GDP in 1992 dollars
E) nominal GDP
Answer: E
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-1

39) Which of the following does NOT represent real GDP?
A) GDP in current dollars
B) GDP in base year dollars
C) GDP in constant dollars
D) GDP in terms of goods
E) GDP adjusted for inflation
Answer: A
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-1

40) From the output side, GDP is _____ in the economy during a given period.
A) the sum of value added and incomes
B) the sum of incomes
C) the sum of taxes
D) the value of the final goods and services produced
E) the value of the final goods and services imported
Answer: D
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-1

The next questions refer to the following information:
Suppose an economy consists of just three firms:

Steel Company		Lobster Company		Car Company	
Revenues from sales	$400	Revenues from sales	$200	Revenues from sales	$1000
Expenses		Expenses		Expenses	
Wages	$340	Wages	$160	Wages	$500
Profits	$60	Profits	$40	Steel purchases	$400
				Profits	$100

41) According to the final goods approach, the GDP of this economy is:
A) 1000.
B) 1200.
C) 1400.
D) 1600.
E) 1800.
Answer: B
Diff: 1   Type: MC
Skill: Applied
Section Ref.: 2-1

42) According to the value added approach, the GDP of this economy is:
A) 500.
B) 1000.
C) 1200.
D) 1400.
E) 1600.
Answer: C
Diff: 1   Type: MC
Skill: Applied
Section Ref.: 2-1

43) According to the income approach, the GDP of this economy is:
A) 400.
B) 600.
C) 1000.
D) 1200.
E) 1400.
Answer: D
Diff: 1   Type: MC
Skill: Applied
Section Ref.: 2-1

44) Countries with _____ generous unemployment benefit systems are _____ likely to have _____ measured unemployment rates.
A) more; more; smaller
B) less; less; smaller
C) less; more; higher
D) less; more; smaller
E) less; less; higher
Answer: D
Diff: 2   Type: MC
Skill: Recall
Section Ref.: 2-2

45) The Okun's law implies that:
A) a high output growth will reduce the unemployment rate.
B) a low output growth will reduce the unemployment rate.
C) a high output growth will increase the unemployment rate.
D) a high output growth will reduce the inflation rate.
E) a high output growth will increase the inflation rate.
Answer: A
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-2

46) Based on the notation presented in Chapter 2, which of the following expressions represents the GDP deflator?
A) $Y_t/\$Y_t$
B) $P_t/\$Y_t$
C) $\$Y_t/Y_t$
D) P_tY_t
E) P_t/Y_t
Answer: C
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-2

47) Based on the notation presented in Chapter 2, which of the following expressions represents the rate of inflation?
A) $Y_t / \$Y_t$
B) $(P_t - P_{t-1}) / P_t$
C) $\$Y_t / Y_t$
D) $(Y_t - Y_{t-1}) / Y_t$
E) $(P_t - P_{t-1}) / P_{t-1}$
Answer: E
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-2

48) The consumer price index and the GDP deflator are not necessarily the same because:
A) some goods in the GDP are sold not to consumers, but to firms, to government or to foreigners.
B) goods in the GDP not sold to consumers are bought by domestic firms and the government.
C) goods in the GDP not sold to consumers are exported and bought by foreigners.
D) all goods bought by consumers are only produced at home.
E) all goods bought by consumers are imported from abroad.
Answer: A
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-2

49) Regarding the Canadian inflation rate (1982-2012), using the CPI and the GDP deflator, we observe that:
A) there is a negative relationship between these two measures of inflation.
B) there is no relationship between these two measures of inflation.
C) the CPI and the GDP deflator move together most of the time.
D) the two inflation rates differ by more than 2% in the 1982-2012 period.
E) negative rates are observed using the Consumer Price Index.
Answer: C
Diff: 1   Type: MC
Skill: Applied
Section Ref.: 2-2

50) About inflation and life satisfaction, recent data suggests that:
A) there is no relationship between inflation and life satisfaction.
B) there is a positive relationship between inflation and life satisfaction.
C) there is a negative relationship between inflation and life satisfaction.
D) the relationship between inflation and life satisfaction depends on how inflation is measured.
E) the relationship between inflation and life satisfaction depends on how life satisfaction is measured.
Answer: C
Diff: 1   Type: MC
Skill: Recall
Section Ref.: 2-3