

QUIZ 1

06.03.2017

PART I: Multiple Choice Questions [10 points]

- 1. GDP** **[1 point]**
- a. is used to monitor the performance of the overall economy but is not the single best measure of a society's economic well-being.
 - b. is used to monitor the performance of the overall economy and is the single best measure of a society's economic well-being.
 - c. is not used to monitor the performance of the overall economy but is the single best measure of a society's economic well-being.
 - d. is not used to monitor the performance of the overall economy and is not the single best measure of a society's economic well-being.
- 2. For an economy as a whole,** **[1 point]**
- a. wages must equal profit.
 - b. consumption must equal income.
 - c. income must equal expenditure.
 - d. consumption must equal saving.
- 3. Which of the following statements about GDP is correct?** **[1 point]**
- a. GDP measures two things at once: the total income of everyone in the economy and the total expenditure on the economy's output of goods and services.
 - b. Money continuously flows from households to firms and then back to households, and GDP measures this flow of money.
 - c. GDP is generally regarded as the best single measure of a society's economic well-being.
 - d. All of the above are correct.

4. If an economy's GDP falls, then it must be the case that the economy's [1 point]

- a. income falls and saving rises.
- b. income and saving both fall.
- c. income falls and expenditure rises.
- d. income and expenditure both fall.

5. In a simple circular-flow diagram, [1 point]

- a. households spend all of their income.
- b. all goods and services are bought by households.
- c. expenditures flow through the markets for goods and services, while income flows through the markets for the factors of production.
- d. All of the above are correct.

6. According to the circular-flow diagram GDP [1 point]

- a. can be computed as either the revenue firms receive from the sales of goods and services or the payments they make to factors of production.
- b. can be computed as the revenue firms receive from the sales of goods and services but not as the payments they make to factors of production.
- c. can be computed as payments firms make to factors of production but not as revenues they receive from the sales of goods and services.
- d. cannot be computed as either the revenue firms receive or the payments they make to factors of production.

7. Suppose that an economy produces 20,000 units of good A which sells at \$3 a unit and 40,000 units of good B which sells at \$1 per unit. Production of good A contributes [1 point]

- a. $1/3$ times as much to GDP as the production of good B.
- b. $3/2$ times as much to GDP as the production of good B.
- c. 3 times as much to GDP as the production of good B.
- d. $2/3$ times as much to GDP as production of good B.

8. Which of the following is included in the calculation of GDP? [2 points]

- a. The purchase of tutoring services from a tutor who holds citizenship outside the country but resides within the country.
- b. The purchase of a new edition of a foreign textbook that was produced in a different nation.
- c. The purchase of ink and paper supplies by a textbook company for the production of new textbooks.
- d. The purchase of a used textbook from a friend who took the same class last year.

9. James owns two houses. He rents one house to the Johnson family for \$10,000 per year. He lives in the other house. If he were to rent the house in which he lives, he could earn \$12,000 per year in rent. How much do the housing services provided by the two houses contribute to GDP [1 point]

- a. \$0
 - b. \$10,000
 - c. \$12,000
 - d. \$22,000
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PART II: Miscellaneous [10 points]

1. In the economy of Talikastan in 2015, consumption was 75% of GDP, government purchases were \$200, imports were \$50 and 125% of the value of exports, investment was one-sixth of the value of consumption. What was Talikastan's GDP in 2015? [2 points]

The table below contains data for the country of Crete for the year 2010.

Total income	\$5731
Household purchases of durable goods	\$1108
Household purchases of nondurable goods	\$702
Household purchases of non-education services	\$203
Household purchases of education services	\$302
Household purchases of new housing	\$816
Purchases of capital equipment	\$333
Inventory changes	\$75
Purchases of new structures	\$267
Depreciation	\$401
Local government spending on goods and services	\$236
State government spending on goods and services	\$419
Federal government spending on goods and services	\$1182
Transfer payments	\$707
Foreign purchases of domestically produced goods	\$217
Domestic purchases of foreign goods	\$129

2. What was Crete's GDP in 2010? [2 points]

- a. \$4623
- b. \$5731
- c. \$6037
- d. \$6839

3. What was Crete's consumption in 2010? [2 points]

- a. \$1810
- b. \$2013
- c. \$2315

d. \$3131

4. What was Crete's investment in 2010?

[2 points]

- a. \$675
- b. \$1090
- c. \$1491
- d. \$1793

5. What were Crete's government purchases in 2010?

[2 points]

- a. \$1130
- b. \$1601
- c. \$1837
- d. \$2544