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Problem Set 1

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) The three approaches to measuring GDP are called the
 - A) accounting approach, the statistical approach, and the income approach.
 - B) product approach, the income approach, and the expenditure approach.
 - C) accounting approach, the income approach, and the expenditure approach.
 - D) product approach, the cost approach, and the expenditure approach.

- 2) The unemployment rate equals
 - A) $\frac{\text{number unemployed}}{\text{labor force}}$.
 - B) $\frac{\text{labor force}}{\text{number unemployed}}$.
 - C) $\frac{\text{number unemployed}}{\text{total working age population}}$.
 - D) $\frac{\text{labor force}}{\text{total working age population}}$.

- 3) To study a macroeconomy, we need to use real data because
 - A) it is the only way to reconcile the three approaches to measuring GDP.
 - B) we want to get rid of the illusion of price effects.
 - C) it is then easier to take logarithms.
 - D) we want to concentrate on the production of real goods, as opposed to services.

- 4) A price index can be computed by
 - A) dividing a real variable by its real counterpart.
 - B) dividing a nominal variable by its real counterpart.
 - C) subtracting the nominal variable from its real counterpart.
 - D) subtracting the real variable from its nominal counterpart.

- 5) Intermediate goods are
 - A) goods that are used up in the production of other goods in the same period that they were produced.
 - B) final goods that remain in inventories.
 - C) either capital goods or inventories.
 - D) capital goods, which are used up in the production of other goods but were produced in earlier periods.

- 6) GDP differs from GNP because
- A) $GDP = GNP - \text{capital consumption allowances}$.
 - B) $GNP = GDP - \text{capital consumption allowances}$.
 - C) $GNP = GDP - \text{net factor payments from abroad}$.
 - D) $GDP = GNP - \text{net factor payments from abroad}$.

Use the table for the question(s) below.

Suppose you are given the following data for Norway:

a.	Consumption = \$800
b.	Investment = \$400
c.	Government = \$500
d.	Exports = \$400
e.	Imports = \$650

- 7) The GDP for Norway equals
- A) \$1050. B) \$1450. C) \$1700. D) \$1750. E) \$2750.
- 8) For GDP calculations, the purchase of stocks and bonds are included under
- A) net exports.
 - B) government.
 - C) investment.
 - D) consumption.
 - E) None of the above
- 9) When calculating GDP, expenditures on new shares of stock sold by the Microsoft Corporation will be classified as
- A) consumption.
 - B) net exports.
 - C) investment.
 - D) government.
 - E) None of the above
- 10) In the income approach, GDP is computed by
- A) adding the selling prices of the factors of production.
 - B) adding up the value of money exchanged for goods and services in the product market.
 - C) adding labor compensation to rental income to interest income to proprietor's income and profit.
 - D) adding up the incomes earned by the factors of production.
 - E) All of the above

Use the table for the question(s) below.

Assume that Macropedia only produces bread and all of the inputs necessary to produce bread. The following summarizes the production of *one* loaf of bread. (all values in dollars)

Activity	Starting Value	Final Value
Sam grows the wheat	0	0.25
Lisa mills the wheat into flour	0.25	0.50
Deshean bakes the flour into bread	0.50	0.90
Maria sells the bread in her grocery store	0.90	1.10

- 11) Refer to the table above. How much is added to GDP if Wilbur buys a loaf of bread from Maria the Grocer and uses it to make a sandwich which he consumes at home?
A) 0.90 B) 1.10 C) 1.75 D) 1.90 E) 2.75
- 12) Refer to the table above. How much is added to GDP if Remy buys flour from Lisa the Miller to bake a loaf of bread to serve to her family at home?
A) 0.50 B) 0.90 C) 1.00 D) 1.65 E) 1.90
- 13) Refer to the table above. How much value is added to GDP by Sam?
A) 0 B) 0.25 C) 0.75 D) 1.00 E) 1.65
- 14) Refer to the table above. How much value is added to GDP by Lisa?
A) 0.25 B) 0.50 C) 1.00 D) 0.75 E) 0.90
- 15) Refer to the table above. How much value is added to GDP by Deshean?
A) 0.90 B) 0.40 C) 1.65 D) 1.40 E) 0.50
- 16) Refer to the table above. How much value is added to GDP by Maria?
A) 0.20 B) 2.75 C) 1.10 D) 1.90 E) 0.50
- 17) Refer to the table above. What is Macropedia's annual GDP if it produces 10 million loaves of bread per year and all of the bread is sold to Macropedia's households for their own use?
A) 9 million B) 27.5 million C) 10 million D) 11 million E) 19 million
- 18) Which of the following is the largest component when using the income approach to computing GDP?
A) Interest income
B) Taxes
C) Labor compensation
D) Rental income
E) Proprietor's income and profit

- 19) For GDP calculations, investment includes all of the following expenditures *except*
- A) buying tools by businesses.
 - B) buying stocks and bonds.
 - C) changes in business inventories.
 - D) construction in the private sector.
 - E) None of the above
- 20) In the expenditure approach, the largest single component of GDP is represented by
- A) investment.
 - B) exports.
 - C) government.
 - D) consumption.
 - E) imports.