

- 8 Gross domestic product measured in terms of the prices of a fixed, or base, year is
- (a) current GDP.
  - (b) base GDP.
  - (c) real GDP.
  - (d) nominal GDP.
- 9 If GNP is \$500 billion and depreciation is \$50 billion, then net national product
- (a) is \$560 billion.
  - (b) is \$550 billion.
  - (c) is \$450 billion
  - (d) cannot be determined from this information.
- 10 The single largest expenditure component in GDP is
- (a) government spending.
  - (b) investment.
  - (c) consumption.
  - (d) net exports.
- 11 The aggregate demand curve
- (a) slopes downward to the right.
  - (b) slopes upward to the left.
  - (c) slopes downward to the left.
  - (d) slopes upward the right.
- 12 The equation for GDP using the expenditure approach is
- (a)  $GDP = C + I + G + EX - IM$ .
  - (b)  $GDP = C + I + G + (IM - EX)$ .
  - (c)  $GDP = C + I + G + EX + IM$ .
  - (d)  $GDP = C + I + G - EX - IM$ .
- 13 Net investment is
- (a) gross investment minus depreciation.
  - (b) gross investment plus depreciation.
  - (c) depreciation minus gross investment.
  - (d) GNP minus final sales.
- 14 Why do firms engage in the activity of production?
- (a) To help society advance technologically
  - (b) To participate in the circular flow
  - (c) To acquire profits
  - (d) To develop a supply schedule
- 15 The period in the business cycle from a peak to a trough is a(n)
- (a) recession.
  - (b) boom.
  - (c) expansion.
  - (d) inflation.
- 16 If output is rising and unemployment is falling, the economy MUST be in a
- (a) contraction.
  - (b) boom.
  - (c) depression.
  - (d) hyperinflationary period.

- 17 Rapid increases in the price level during periods of recession or high unemployment are known as
- (a) stagflation.
  - (b) stagnation.
  - (c) depression.
  - (d) inflation.
- 18 Depreciation is
- (a) the decrease in the overall price level.
  - (b) the additional capital stock in a year.
  - (c) the amount of used up machinery in a year.
  - (d) the amount of decline in business inventories.
- 19 The period in the business cycle from a trough to peak is called a(n)
- (a) recession.
  - (b) expansion.
  - (c) slump.
  - (d) depression.
- 20 Net national product is
- (a) GDP plus depreciation.
  - (b) GDP minus depreciation.
  - (c) GNP minus depreciation.
  - (d) GNP plus depreciation.
- 21 Net investment equals
- (a) GDP minus final sales
  - (b) Gross investment minus final sales
  - (c) Gross investment minus depreciation.
  - (d) Depreciation plus GDP.
- 22 Macroeconomic policies became more influenced by Keynes theories during,
- (a) the period of high unemployment and high inflation in the 1970s.
  - (b) the Great Depression.
  - (c) the period of high inflation in the early 1980s.
  - (d) the OPEC recession.
- 23 The total value of all capital goods newly produced in a given period is
- (a) the change in business inventories.
  - (b) depreciation.
  - (c) net investment.
  - (d) gross investment.
- 24 The total demand for goods and services in an economy is known as
- (a) gross national product.
  - (b) aggregate demand.
  - (c) total demand.
  - (d) gross domestic product.

**Problem 2 (10 points)**

You are given the following information about an economy that produces only bread and steaks. Use this information to answer the following ten (10) questions.

Goods	Year 1		Year 2		Year 3	
	Quantity	Price	Quantity	Price	Quantity	Price
Bread	300	1.5	400	1.2	250	1.8
Steaks	400	3	300	4	500	6

- (1) If we use a fixed-weight procedure and year 1 as the base year, then real GDP in year 1 (RGDP1/1) is equal to:
  - (a) 1650
  - (b) 2300
  - (c) 2520
  - (d) 2854
  
- (2) If we use a fixed-weight procedure and year 1 as the base year, then real GDP in year 2 (RGDP2/1) is equal to:
  - (a) 1000
  - (b) 1500
  - (c) 2300
  - (d) None of the above
  
- (3) If we use a fixed-weight procedure and year 2 as the base year, then real GDP in year 1 (RGDP1/2) is equal to:
  - (a) 1680
  - (b) 1960
  - (c) 1994
  - (d) None of the above
  
- (4) If we use a fixed-weight procedure and year 2 as the base year, then real GDP in year 2 (RGDP2/2) is equal to:
  - (a) 2650
  - (b) 1960
  - (c) 2940
  - (d) 1680