

BPE MAC1 Macroeconomics 1 – Spring Semester 2011

Tutorial Session 1, 04.03.2011, 11:05-11:50 a.m.

Multiple Choice

Identify the choice that best completes the statement or answers the question.

- _____ 1. In the circular flow model, for every flow of goods, services, and resources there is a counter-flow of
- more goods, services, and resources.
 - people from firms to households.
 - people from households to firms.
 - money.
- _____ 2. In producing a sweater, a man who shears sheep pays a farmer €4 for a sheep's wool. The shearing shop sells the wool to a knitting mill for €7. The knitting mill buys the wool and makes it into a fine fabric and sells it to a sweater-making firm for €13. The sweater-making firm sells the sweater to a clothing store for €20, and the clothing store sells the sweater, giftwrapped, for €50. What is the contribution to GDP of the previous sales transactions?
- €4
 - €44
 - €50
 - €94
- _____ 3. Which of the following would be counted in France's GDP?
- The purchase of an historic chateau
 - The purchase of a haircut
 - The purchase of a €1,000 government savings bond
 - The value generated when Pierre washes his car in his garden
- _____ 4. If private investment increased by €50 billion while GDP remained the same, which of the following could have occurred, all else being the same?
- Consumption spending decreased by €50 billion.
 - Exports increased by €50 billion.
 - Imports decreased by €50 billion.
 - Net exports increased by €50 billion.
- _____ 5. Assume net exports are €-220, consumption is €5,000, tax revenues are €1,000, government purchases are €1,500, and 2005 GDP, calculated by the expenditures approach, is €8,000. We can conclude that
- private investment was €1,940.
 - public investment was €310.
 - private investment was €320.
 - private investment was €1,720.
- _____ 6. Real GDP is nominal GDP
- plus depreciation.
 - adjusted for changes in the price level.
 - minus depreciation.
 - minus taxes.

- _____ 7. Which of the following would be most likely to cause GDP to overstate the actual output produced in a year?
- increased production in the underground economy
 - a decline in the quality of goods and services produced
 - increased production for home use (non-market production)
 - a decline in population
- _____ 8. Suppose that population grows by 2 per cent. For the standard of living to rise, which of the following must occur?
- Nominal GDP must grow by more than 2 per cent.
 - Real GDP must grow by more than 2 per cent.
 - Real GDP per capita must grow by more than 2 per cent.
 - consumption spending must grow by more than 2 per cent.
- _____ 9. During recessions, GDP falls and unemployment increases. Why might the actual output produced not fall as much as officially measured GDP during a recession?
- There is an increase in involuntary part-time employment, the output from which is not accounted for in GDP.
 - Workers who became unemployed during the recession may produce goods in the underground economy.
 - Unemployment benefits to laid-off workers will allow them to purchase nearly as much output as before.
 - Laid off workers may start their own businesses, but profit income from self-employment is not accounted for in GDP.
- _____ 10. Which of the following is a problem with the measurement of GDP?
- Transfer payments are not included.
 - Production in the underground economy is not counted.
 - Non-market production is not counted.
 - Both b and c are correct.

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Answer Section

MULTIPLE CHOICE

1. ANS: D
money.

PTS: 1

2. ANS: C
€50

PTS: 1

3. ANS: B
The purchase of a haircut

PTS: 1

4. ANS: A
Consumption spending decreased by €50 billion.

PTS: 1

5. ANS: D
private investment was €1,720.

PTS: 1

6. ANS: B
adjusted for changes in the price level.

PTS: 1

7. ANS: B
a decline in the quality of goods and services produced

PTS: 1

8. ANS: B
Real GDP must grow by more than 2 per cent.

PTS: 1

9. ANS: B
Workers who became unemployed during the recession may produce goods in the underground economy.

PTS: 1

10. ANS: D
Both b and c are correct.

PTS: 1