

Sample Multiple-Choice Questions

Circle the letter of each correct answer.

- In the circular flow diagram, which of the following is true in the product market?
 - Households sell goods and services to business firms.
 - Households sell resources to business firms.
 - Business firms sell resources to households.
 - Business firms sell goods and services to households.
 - Households buy resources from business firms.
- In the circular flow diagram, which of the following is true in resource or factor markets?
 - Households buy resources from business firms.
 - Households sell products to business firms.
 - Households sell resources to business firms.
 - Business firms sell goods and services to households.
 - Business firms sell resources to households.
- Which of the following is the best measure of the production or output of an economy?
 - Consumer price index
 - Unemployment rate
 - Gross domestic product
 - Prime rate
 - Index of leading indicators
- The market value of all final goods and services produced in the economy in a given year is
 - net national product.
 - national income.
 - personal income.
 - gross domestic product.
 - producer price index.
- Which of the following people would be considered unemployed?
 - A person who quits work to care for aging parents
 - A person who stayed home to raise his children and now starts looking for a job
 - A person who quits a job to return to school full time
 - A person who is qualified to teach but is driving a bus until a teaching job is available
 - A person who works two part-time jobs but is looking for a full-time job
- In the gross domestic product, the largest dollar amount is
 - consumer spending.
 - rental payments.
 - net exports of goods and services.
 - gross private domestic investment.
 - government purchases of goods and services.
- The largest dollar amount of gross domestic product is
 - rental payments.
 - government expenditures on goods and services.
 - profit.
 - net interest.
 - wages and salaries to employees.

8. Which of the following purchases is included in the calculation of gross domestic product?
- (A) A used economics textbook from the bookstore
 - (B) New harvesting equipment for the farm
 - (C) 1,000 shares of stock in a computer firm
 - (D) A car produced in a foreign country
 - (E) Government bonds issued by a foreign firm
9. Which of the following would be included in the calculation of gross domestic product?
- (A) Government purchase of a new submarine
 - (B) Social Security payment to a retired military officer
 - (C) The purchase of a home built 10 years ago
 - (D) Contributions to a charity organization
 - (E) Work performed by a barber who cuts the hair of his or her own children
10. Which of the following would be counted as investment when calculating gross domestic product?
- (A) The purchase of a used computer by an auto manufacturer
 - (B) The purchase of a share of IBM stock by an employee
 - (C) The construction of a new house
 - (D) The construction of roads by the government
 - (E) The profit earned when selling shares of stock
11. Which of the following would be an example of an *intermediate* good or service?
- (A) A calculator purchased by a college student for taking exams
 - (B) Gasoline purchased by an insurance agent to visit clients at their homes
 - (C) A house purchased by a family with four children
 - (D) A car purchased by a student's parents and given to the student
 - (E) Tuition paid by a student at a state university
12. Of the following, which is the best example of *structural* unemployment?
- (A) A computer programmer who quits her job to move to a warmer climate
 - (B) A construction worker who loses his job in the winter
 - (C) An auto worker who loses her job during a recession
 - (D) A steel worker who is replaced by a robot
 - (E) A toy maker who worked for a company that closed because consumers did not buy its toys
13. If the price index in a country were 100 for the year 2000 and 120 for 2003 and nominal gross domestic product in 2003 were \$480 billion, then real gross domestic product for 2003 in 2000 dollars would be
- (A) about \$360 billion.
 - (B) about \$380 billion.
 - (C) about \$400 billion.
 - (D) about \$600 billion.
 - (E) indeterminate with the given information.

Use the following information for a hypothetical economy to answer questions 14 and 15.

| YEAR | Current or Nominal GDP | GDP Price Deflator Index (1990 = 100) | GDP Price Deflator Index (2000 = 100) |
|------|------------------------|---------------------------------------|---------------------------------------|
| 1990 | \$500 | 100 | |
| 2000 | \$1,200 | 200 | 100 |

14. The value of the gross domestic product in 2000, in terms of 1990 prices, was
- (A) \$600. (B) \$700.
(C) \$1,000. (D) \$1,200.
(E) \$1,300.
15. If 2000 were made the base year for the GDP price deflator index, the value of the index number for 1990 (rounded to the nearest whole number) would be
- (A) zero. (B) 42.
(C) 142. (D) 212.
(E) 256.
16. The CPI tends to overstate true changes in the cost of living for which of the following reasons?
- I. The index does not take into account a change in quality.
II. Consumers change purchase patterns as prices change.
III. The CPI includes only domestically produced goods.
IV. Consumers often buy at discount rather than retail.
- (A) I only
(B) I and II only
(C) I, II and III only
(D) I, II and IV only
(E) I, II, III and IV
17. Which of the following is true about the natural rate of unemployment?
- (A) It can vary over time.
(B) It is 2 percent or less of the civilian labor force.
(C) It is equal to the structural unemployment rate.
(D) It allows for some frictional and cyclical unemployment.
(E) It is the full-employment rate minus the cyclical unemployment rate.
18. Suppose a factory added \$5,000 worth of output this year. Incidentally, the waste from this factory caused \$1,000 worth of loss to the neighboring waterways. As a result, gross domestic product will
- (A) increase by \$5,000.
(B) increase by \$4,000.
(C) increase by \$1,000.
(D) decrease by \$4,000.
(E) decrease by \$1,000.
19. Which of the following is true if real GDP in Year 1 is \$5,000 and in Year 2 is \$5,200?
- (A) Output has increased by 4 percent.
(B) Output has declined by 4 percent.
(C) Output change is uncertain.
(D) The economy is experiencing 4 percent inflation.
(E) The economy is experiencing a recession.
20. When the actual inflation rate is greater than the anticipated inflation rate, which of the following is most likely to suffer?
- (A) Those who lend at a fixed interest rate
(B) Those who borrow at a fixed interest rate
(C) Retired persons with cost-of-living adjustment in their benefits
(D) Employers who hire workers with long-term labor contracts
(E) Those who lend with flexible interest rates