ANSWERS

Chapter 7 – Measuring the Economy – Quick Quiz

GDP and SOCIAL WELFARE

1. Which of the following activities is excluded from GDP, causing GDP to understate a nation's well-being?   
A. the services of health care workers  
B. the services of military personnel  
C. the construction of new buildings  
**D. goods and services produced in the underground economy**

2. The GDP tends to:   
A. overstate economic welfare because it does not include certain nonmarket activities such as the productive work of housewives.  
B. understate economic welfare because it includes expenditures undertaken to offset or correct pollution.  
**C. understate economic welfare because it does not take into account increases in leisure.**  
D. overstate economic welfare because it does not reflect improvements in product quality.

3. The growth of GDP may *understate* changes in the economy's economic well-being over time if the:   
A. distribution of income becomes increasingly unequal.  
**B. quality of products and services improves.**  
C. environment deteriorates because of pollution.  
D. amount of leisure decreases.

4. GDP data are criticized as being inaccurate measures of economic welfare because:   
A. they do not take into account changes in the amount of leisure.  
B. they do not take into account all changes in product quality.  
C. they do not take into account the adverse effects of economic activity on the environment.  
**D. of all of these considerations.**