ANSWERS - Chapter 7 – Measuring the Economy – Quick Quiz

DEFINING GDP

1. GDP is:
A. the monetary value of all goods and services (final, intermediate, and non-market) produced in a given year.
B. total resource income less taxes, saving, and spending on exports.
C. the economic value of all economic resources used in the production of a year's output.
**D. the monetary value of all final goods and services produced within a nation in a specific year.**

2. Final goods and services refer to:
A. goods and services that are unsold and therefore added to inventories.
B. goods and services whose value has been adjusted for changes in the price level.
**C. goods and services purchased by ultimate users, rather than for resale or further processing.**
D. the excess of U.S. exports over U.S. imports.

3. Tom Smith grows tomatoes for home consumption. This activity is:
A. excluded from GDP in order to avoid double counting.
B. excluded from GDP because an intermediate good is involved.
**C. excluded from GDP because no market transaction occurs.**
D. included in GDP because it reflects production.

4. Which of the following transactions would be included in GDP?
A. Mary buys a used book for $5 at a garage sale.
B. Nick buys $5000 worth of stock in Microsoft.
C. Olivia receives a tax refund of $500.
**D. Peter buys a newly constructed house.**

5. Gross investment refers to:
A. private investment minus public investment.
**B. net investment plus investment in replacement capital.**
C. net investment after it has been "inflated" for changes in the price level.
D. net investment plus net exports.

6. Which of the following is *not* economic investment?
A. the purchase of a drill press by the Ajax Manufacturing Company
**B. the purchase of 100 shares of AT&T by a retired business executive**
C. construction of a suburban housing project
D. the piling up of inventories on a grocer's shelf