

GDP PRACTICE PROBLEMS

Coach Burnett
AP Macroeconomics

1

PROBLEM 1

The GNP of a country is greater than its GDP if:

- A. Exports are greater than Imports
- B. Imports are greater than Exports
- C. Imports are equal to Exports
- D. Prices are falling
- E. Prices are rising

2

SOLUTION 1

The GNP of a country is greater than its GDP if:

- A. Exports are greater than Imports

Explanation:

$$\text{GNP} = \text{GDP} + \text{Net Factor Income from Abroad}$$

3

PROBLEM 2

An increase in the National Income at constant prices is also known as:

- A. Increases in Real National Income
- B. Real increase in National Income
- C. Real increases in Per Capita Income
- D. Nominal increase in Per Capita Income
- E. Increase in Per Capita Income in real terms

4

SOLUTION 2

An increase in the National Income at constant prices is also known as:

- A. Increases in Real National Income

Explanation:

National Income at constant prices is also known as the 'Real Income'

5

PROBLEM 3

Welfare is improved when with a rise in Per Capita Income:

- A. The overall income distribution remains the same
- B. The income distribution changes in favor of the industrial labor
- C. The income distribution changes in favor of the rich
- D. The income distribution changes in favor of the poor
- E. None of the above

6

SOLUTION 3

Welfare is improved when with a rise in Per Capita Income:

- D. The income distribution changes in favor of the poor

Explanation:

Welfare is improved when the rise in Per Capita Income implies the Income changes in favor of the poor

7

PROBLEM 4

The Income of employees in a foreign bank operating in USA become a part of:

- A. Property income earned from abroad by US banks
- B. Compensation of employees taken as the normal residence of USA
- C. Domestic factor income of USA
- D. Factor income earned from abroad by USA
- E. None of these

8

SOLUTION 4

The Income of employees in a foreign bank operating in USA become a part of:

- C. Domestic factor income of USA

Explanation:

The employees are US citizens and their income adds to the Domestic Factor Income of the US

9

PROBLEM 5

GNP includes the purchase of a new house under:

- A. Investment
- B. Personal Savings
- C. Personal Consumption Expenditure
- D. Capital Consumption Allowance
- E. Capital Expenditure

10

SOLUTION 5

GNP includes the purchase of a new house under:

- A. Investment

Explanation:

Purchasing a new home is an investment

11

PROBLEM 6

Which of the following would be included in the sum of GDP?

- A. Smuggled goods
- B. Income from gambling
- C. Income earned from the sale of illegal arms
- D. Interest earned
- E. Money generated from the trafficking of drugs

12

SOLUTION 6

Which of the following would be included in the sum of GDP?

- D. Interest earned

Explanation:

All other options except for 'interest earned' form part of the income earned that is counted in Black Market or illegal activities which is not included in GDP

13

PROBLEM 7

In the definition of GDP, the words "total market value" refer to total:

- A. Dollar value at base prices.
- B. Dollar value at current prices.
- C. Subjective value.
- D. Objective value.
- E. A and D

14

SOLUTION 7

In the definition of GDP, the words "total market value" refer to total:

- B. Dollar value at current prices

Explanation:

Total market value uses the Nominal GDP which we learned measures using current market prices

15

PROBLEM 8

The three ways of measuring Gross Domestic Product are the ____ approach, the ____ approach and the ____ approach.

- A. expenditure; income; value-added
- B. expenditure; national product; circular flow
- C. national product; income; net national product
- D. real gross domestic product; nominal gross domestic product; gross national product

16

SOLUTION 8

The three ways of measuring Gross Domestic Product are the ___ approach, the ___ approach and the ___ approach.

A. expenditure; income; value-added

Explanation:

The one method we haven't gone over is the Value Added Approach, on next slide, but process of elimination would determine 'A'

17

VALUE ADDED APPROACH

| Production Generated Added | New | Orig. |
|----------------------------|------------------|------------------|
| • Farmer harvest wheat | \$100 | \$100 |
| • Miller makes into flour | \$200 | \$100 |
| • Baker makes into bread | \$300 | \$100 |
| | \$600 | \$300 |

• GDP counts only the \$ value of the final good

18

PROBLEM 9

Which of the following illustrates double counting?

- A. The total market value of the steel used to produce a car and the total market value of the car itself are summed.
- B. The total market value of tennis rackets and the total market value of tennis balls are summed.
- C. The total market value of picture frames and the total market value of camera film are summed.
- D. The total market value of eyeglasses and the total market value of carpet are summed.
- E. B and C

19

SOLUTION 9

Which of the following illustrates double counting?

- A. The total market value of the steel used to produce a car and the total market value of the car itself are summed.

Explanation:

We don't count used or intermediate goods when solving for GDP to avoid double counts

20

PROBLEM 10

Which of the following is counted in GDP?

- A. The purchase of 100 shares of IBM stock
- B. The services of a real estate broker
- C. The consumption of leisure by people
- D. The sale of a used car
- E. None of the above

21

SOLUTION 10

Which of the following is counted in GDP?

- B. The services of a real estate broker

Explanation:

GDP counts all final, domestic production for which there is a market transaction in that year.

22

PROBLEM 11

Which of the following would *not be included in the calculation of this year's GDP?*

- A. A headlight bulb purchased at Joe's Auto Supply by Susan to replace a burnt out bulb in her car
- B. A headlight bulb purchased by Ford Motor Co. from a supplier
- C. A headlight bulb produced but not sold this year and thus ending up as inventory
- D. None of the above, i.e., all would be included
- E. None would be included

23

SOLUTION 11

Which of the following would *not be included in the calculation of this year's GDP?*

- B. A headlight bulb purchased by Ford Motor Co. from a supplier

Explanation:

We don't count used or intermediate goods when solving for GDP to avoid double counts

24

PROBLEM 12

Tim just bought shares of stock in Amazon.com for \$1,000 and paid a \$45 commission to his broker. How did this affect GDP?

- A. It had no impact on GDP.
- B. GDP increased by \$45.
- C. GDP increased by \$955.
- D. GDP increased by \$1,000.

25

SOLUTION 12

Tim just bought shares of stock in Amazon.com for \$1,000 and paid a \$45 commission to his broker. How did this affect GDP?

- B. GDP increased by \$45.

Explanation:

- Consumer spending includes -
 - Services (plumbing, college...) ← This case, Broker

26

PROBLEM 13

Which of the following is a nonmarket good?

- A. The corn you grow in your home garden and consume
- B. The clothes you sew and sell to a neighbor who pays by check
- C. The self-portrait hanging in your den
- D. A and C
- E. None of these

27

SOLUTION 13

Which of the following is a nonmarket good?

- D. A and C

Explanation:

A non-market good or service is something that is not bought or sold directly. Therefore, a non-market good does not have an observable monetary value

28

PROBLEM 14

Suppose the total market value of all final goods and services produced this year in economy X is \$4 million. Of the \$4 million worth of goods, \$3 million is sold and \$1 million is held in inventory. For this year, the GDP for economy X is:

- A. \$4 million.
- B. \$3 million.
- C. \$1 million.
- D. \$7 million.
- E. none of the above

29

SOLUTION 14

Suppose the total market value of all final goods and services produced this year in economy X is \$4 million. Of the \$4 million worth of goods, \$3 million is sold and \$1 million is held in inventory. For this year, the GDP for economy X is:

- A. \$4 million.

Explanation:

\$4 million worth of goods was sold, we count all final, domestic production for which there is a market transaction in that year.

30

PROBLEM 15

Depreciation refers to a decrease in the value of a good caused by:

- A. An increase in the price level.
- B. A decrease in the price level.
- C. "Wear and tear" of capital goods over time.
- D. The depreciation allowance.
- E. A decrease in purchasing power.

31

SOLUTION 15

Depreciation refers to a decrease in the value of a good caused by:

- C. "Wear and tear" of capital goods over time.

Explanation:

The goods that we buy lose value over time. Think about cars, when you buy a new car and drive off the lot, -25% of value instantly!

32
