

ECON 202
EXAMPLE TEST #2
NATIONAL INCOME

- 1) Gross domestic product is the total ____ produced within a country in a given time period.
 - A) market value of all final and intermediate goods and services
 - B) market value of all final and intermediate goods and services plus investment and depreciation
 - C) amount of final and intermediate goods and services
 - D) market value of all final goods and services

- 2) If national saving (S) is \$100,000, net taxes (T) equal \$100,000 and government purchases of goods and services (G) are \$25,000, how much are households and businesses saving?
 - A) \$25,000.
 - B) \$225,000.
 - C) -\$25,000.
 - D) None of the above.

- 3) If foreigners spend more on U.S.-made goods and services than we spend on theirs,
 - A) foreigners must borrow from the United States or sell U.S. assets to make up the difference.
 - B) all U.S. national saving remains in the United States
 - C) we must borrow from foreigners because of low imports.
 - D) funds flow in from abroad to help finance U.S. investment.

- 4) An example of a flow variable is
 - A) capital.
 - B) consumption expenditure by households.
 - C) the machinery owned by a firm.
 - D) the cash held by households.

- 5) Which of the following is a stock variable?
 - A) Capital.
 - B) Consumption expenditure by households.
 - C) Gross investment.
 - D) Depreciation.

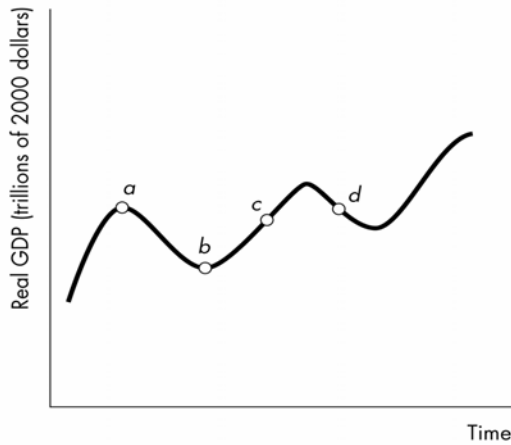
- 6) Which of the following is NOT a flow variable?
 - A) The number of DVD players sold per month.
 - B) The number of DVDs available at the library.
 - C) Annual spending on DVD rentals.
 - D) The number of DVDs produced per year.

- 7) Investment, as defined in the text, refers to the purchase of
 - A) new capital.
 - B) stocks and bonds.
 - C) durable goods by consumers.
 - D) All of the above answers are correct.

- 8) Depreciation is
 - A) the sum of gross and net investment.
 - B) a stock variable that affects the economy's ability to produce.
 - C) the difference between gross investment and the capital stock.
 - D) one of the flow variables affecting the capital stock.

- 9) GDP can be computed as the sum of
- A) all sales that have taken place in an economy over a period of time.
 - B) the total expenditures of consumers and business over a period of time.
 - C) the total expenditures of consumption, investment, and government purchases of goods and services over a period of time.
 - D) the total expenditures of consumption, investment, government purchases of goods and services, and net exports over a period of time.
- 10) Which of the following is a component of the incomes approach to GDP?
- A) Consumption expenditure.
 - B) Wages and salaries.
 - C) Investment.
 - D) Government purchases of goods and services.
- 11) Which of the following is NOT included in real GDP?
- A) Production of services, such as the services of hair dressers.
 - B) Production of goods that last less than a year, such as production of hot dogs.
 - C) Production that takes place in the underground economy.
 - D) Production of goods that last more than a year, such as a pair of roller blades.
- 12) A business cycle is the
- A) pattern of short-run upward and downward movements in production and jobs.
 - B) increase in consumer spending that accompanies an increase in disposable income.
 - C) cyclical change in the nation's balance of trade.
 - D) cyclical movement in the interest rates.
- 13) By the popular working definition, a recession occurs when
- A) the international deficit worsens for at least two successive quarters.
 - B) the government budget deficit exceeds the national debt.
 - C) the inflation rate exceeds 3.5 percent.
 - D) real GDP decreases for at least two successive quarters.
- 14) What term is used to describe the lowest point of a business cycle?
- A) peak
 - B) trough
 - C) expansion
 - D) recession
- 15) An observer of the economy notices that over the last nine months the unemployment rate has increased from 5.6 percent to 8.7 percent. During the same time the rate of growth in real gross domestic product has become negative. From this information we might conclude that
- A) inflation is probably rampant in this economy.
 - B) a recession is occurring in this economy.
 - C) an expansionary phase of the business cycle is in process.
 - D) a peak in the business cycle will soon be reached.

Figure 1



- 16) In **Figure 1**, a recession begins at point ____ and an expansion begins at point ____.
- A) a; b
B) b; c
C) b; a
D) d; c
- 17) Which of the following people would NOT be counted as unemployed in the Current Population Survey?
- A) The person has no job and has made an effort to find work in the last four weeks.
B) The person is awaiting recall to a job after being laid off.
C) The person is without a job and is making no effort to find work.
D) The person is waiting to start a new job in thirty days.

Table 1

Category	Number (millions)
Discouraged workers	15
Unemployed workers	40
Employed workers	100
Population that is 16 years and older, not institutionalized, incarcerated, or in military service	225

- 18) In **Table 1**, the working age population is
- A) 225 million.
B) 100 million.
C) 140 million.
D) 155 million.
- 19) In **Table 1**, the size of the labor force is
- A) 210 million.
B) 155 million.
C) 140 million.
D) 100 million.

- 20) In **Table 1**, the unemployment rate is
A) 6 percent.
B) 24 percent.
C) 18 percent.
D) 29 percent.
- 21) In **Table 1**, the labor force participation rate is
A) 55 percent.
B) 44 percent.
C) 62 percent.
D) 69 percent.

Table 2

Component	Number of people (millions)
Under 16	50
Working full-time	90
Working part-time	30
Retired	40
Unemployed	5

- 22) Using the data in **Table 2**, the unemployment rate is
A) 4 percent.
B) 14 percent.
C) 6 percent.
D) 28 percent.
- 23) Using the data in **Table 2**, the labor force is ____ million.
A) 215
B) 120
C) 125
D) 165
- 24) When the automobile replaced horse-drawn carriages as the principal means of transportation, firms producing horse-drawn carriages went bankrupt and permanently laid off all their workers, thereby increasing
A) frictional unemployment.
B) structural unemployment.
C) frictional and cyclical unemployment.
D) cyclical unemployment.
- 25) Which of the following most likely would decrease frictional unemployment?
A) An increase in the number of high school and college graduates.
B) Effective Internet-based employment services and job registries.
C) An expansion of unemployment compensation benefits.
D) All of the above would decrease frictional unemployment.
- 26) Cyclical unemployment is the result of
A) technological change or foreign competition.
B) normal labor market turnover.
C) the business cycle.
D) irresponsible workers with poor work habits.