

Name: _____ Date: _____

1. According to the neoclassical theory of distribution, if firms are competitive and subject to constant returns to scale, total income in the economy is distributed:
 - A) only to the labor used in production.
 - B) partly between labor and capital used in production, with the surplus going to the owners of the firm as profits.
 - C) equally between the labor and capital used in production.
 - D) between the labor and capital used in production, according to their marginal productivities.

2. If GDP (measured in billions of current dollars) is \$5,465, consumption is \$3,657, investment is \$741, and government purchases are \$1,098, then net exports are:
 - A) \$131.
 - B) -\$131.
 - C) \$31.
 - D) -\$31.

3. A consumption function shows the relationship between consumption and:
 - A) income.
 - B) personal income.
 - C) disposable income.
 - D) taxes.

4. If total consumption (measured in billions of current dollars) equals \$3,657, consumption of durable goods is \$480, and consumption of nondurable goods is \$1,194, then consumption of services is:
 - A) \$1,674.
 - B) \$2,463.
 - C) \$2,083.
 - D) \$1,983.

5. Endogenous variables are:
 - A) fixed at the moment they enter the model.
 - B) determined within the model.
 - C) the inputs of the model.
 - D) from outside the model.

6. The amount of capital in an economy is a _____ and the amount of investment is a _____.
- A) flow; stock
 - B) stock; flow
 - C) final good; intermediate good
 - D) intermediate good; final good
7. Recessions are periods when real GDP:
- A) increases slowly.
 - B) increases rapidly.
 - C) decreases mildly.
 - D) decreases severely.
8. Imputed values included in GDP are the:
- A) market prices of goods and services.
 - B) estimated value of goods and services that are not sold in the marketplace.
 - C) price of goods and services measured in constant prices.
 - D) price of goods and services measured in current prices.
9. The marginal propensity to consume is:
- A) normally expected to be between zero and one.
 - B) equal to consumption divided by disposable income.
 - C) normally assumed to decrease as disposable income increases.
 - D) normally assumed to increase as disposable income increases.
10. To compute the value of GDP:
- A) goods and services are valued at market prices.
 - B) the sale of used goods is included.
 - C) production for inventory is not included.
 - D) goods and services are valued by weight.
11. In the national income accounts, net exports equal:
- A) exported goods minus imported goods.
 - B) exported goods and services minus imported goods and services.
 - C) exported goods minus imported services.
 - D) exported goods and services plus imported goods and services.

12. Unlike the real world, the classical model with fixed output assumes that:
- A) all factors of production are fully utilized.
 - B) all capital is fully utilized but some labor is unemployed.
 - C) all labor is fully employed but some capital lies idle.
 - D) some capital lies idle and some labor is unemployed.
13. Macroeconomics does *not* try to answer the question of:
- A) why do some countries experience rapid growth.
 - B) what is the rate of return on education.
 - C) why do some countries have high rates of inflation.
 - D) what causes recessions and depressions.
14. Exogenous variables are:
- A) fixed at the moment they enter the model.
 - B) determined within the model.
 - C) the outputs of the model.
 - D) explained by the model.
15. If total investment (measured in billions of current dollars) equals \$741, business fixed investment is \$524, and residential fixed investment is \$222, then inventory investment is:
- A) \$5.
 - B) -\$5.
 - C) \$15.
 - D) -\$15.
16. If an increase of an equal percentage in all factors of production results in an increase in output of the same percentage, then a production function has the property called:
- A) constant marginal product of labor.
 - B) increasing marginal product of labor.
 - C) constant returns to scale.
 - D) increasing returns to scale.
17. If the consumption function is given by the equation $C = 500 + 0.5Y$, the production function is $Y = 50K^{0.5}L^{0.5}$, where $K = 100$ and $L = 100$, then C equals:
- A) 1,000.
 - B) 2,500.
 - C) 3,000.
 - D) 5,000.

18. Disposable personal income is personal income minus:
- A) personal tax and nontax payments.
 - B) taxes plus dividends.
 - C) taxes plus dividends plus net interest.
 - D) social insurance contributions.
19. Unlike the GDP deflator, the CPI includes the prices of:
- A) goods purchased by firms.
 - B) goods purchased by governments.
 - C) exported goods.
 - D) imported goods.
20. The property of diminishing marginal product means that, after a point, when additional quantities of:
- A) a factor are added, output diminishes.
 - B) both labor and capital are added, output diminishes.
 - C) both labor and capital are added, the marginal product of labor diminishes.
 - D) a factor are added when another factor remains fixed, the marginal product of that factor diminishes.
21. A typical trend during a recession is that:
- A) the unemployment rate falls.
 - B) the popularity of the incumbent president rises.
 - C) incomes fall.
 - D) the inflation rate rises.
22. The total income of everyone in the economy adjusted for the level of prices is called:
- A) a recession.
 - B) an inflation.
 - C) real GDP.
 - D) a business fluctuation.
23. In the classical model with fixed income, if the interest rate is too low, then investment is too _____ and the demand for output _____ the supply.
- A) high; exceeds
 - B) high; falls short of
 - C) low; exceeds
 - D) low; falls short of

24. If real GDP grew by 6 percent and population grew by 2 percent, then real GDP per person grew by approximately _____ percent.
- A) 2
 - B) 3
 - C) 4
 - D) 8
25. When a firm sells a product out of inventory, investment expenditures _____ and consumption expenditures _____.
- A) increase; decrease
 - B) decrease; increase
 - C) decrease; remain unchanged
 - D) remain unchanged; increase
26. In a simple model of the supply and demand for pizza, when aggregate income increases, the price of pizza _____ and the quantity purchased _____.
- A) increases; decreases
 - B) increases; increases
 - C) decreases; increases
 - D) decreases; decreases
27. If income is 4,800, consumption is 3,500, government spending is 1,000, and tax revenues are 800, public saving is:
- A) -200.
 - B) 200.
 - C) 500.
 - D) 1,800.
28. According to the definition used by the U.S. Bureau of Labor Statistics, people are considered to be unemployed if they:
- A) are out of a job but not looking for work.
 - B) retired from the labor force.
 - C) have found a job but are waiting for it to start.
 - D) are in the military service.
29. When bread is baked but put away for later sale, this is called:
- A) waste.
 - B) saving.
 - C) fixed investment.
 - D) investment in inventory.

Use the following to answer question 30:

Exhibit: Totals Recorded for the United States
(billions of dollars)*

Durable goods consumption	\$ 497	
Nondurable goods consumption	1,301	
Services consumption	2,342	
Business fixed investment	566	
Residential fixed investment	224	
Inventory investment	7	
Federal government purchases		499
State and local government purchases		683
Exports	640	
Imports	670	
Excess of GNP over GDP	7	
Depreciation	658	
Indirect business taxes		551
Corporate profits		
(includes wage accruals less disbursements)		387
Social insurance contributions		556
Net interest	442	
Dividends (includes business transfer payments)		162
Government transfers to individuals	837	
Personal interest income	694	
Personal tax and nontax payments	645	

*Note: The numbers given in this exhibit and the answers to questions 93, 94, and 95 differ from those in Table 2-1 and the body of the text.

30. (Exhibit: Totals Recorded for United States)

What were net national product, national income, personal income, and disposable personal income?

Answer Key

1. D
2. D
3. C
4. D
5. B
6. B
7. C
8. B
9. A
10. A
11. B
12. A
13. B
14. A
15. B
16. C
17. C
18. A
19. D
20. D
21. C
22. C
23. A
24. C
25. B
26. B
27. A
28. C
29. D
- 30.