

ECON 2630---Practice Problems 1

1. What are the three important macroeconomic goals about which most economists, and society at large, agree?
 - a. economic growth, full employment, and low interest rates
 - b. economic growth, full employment, and stable prices
 - c. economic growth, zero unemployment, and falling prices
 - d. economic growth, low unemployment, and a balanced budget
 - e. economic growth, a balanced budget, and balanced international trade

2. Used car dealerships add nothing to GDP because the cars they sell were already recorded in GDP when they were new.
 - a. True
 - b. False

3. Which of the following would be included in a year's GDP?
 - a. Susan cleans the fuel injectors on her car.
 - b. A private individual purchases 100 shares of IBM stock.
 - c. A timber company purchases land in Oregon.
 - d. A consumer buys an antique desk.
 - e. A college professor purchases a new computer.

4. Goodyear produces tires for automobiles, 50,000 in all. Suppose 40,000 go on new cars and are sold as part of each car, while the other 10,000 are produced as replacement tires and are sold individually. How many tires would be counted in current GDP?
 - a. 50,000, because everything produced is counted
 - b. 40,000, because only the ones on new cars are counted
 - c. 10,000, because 40,000 will be counted in the value of the new cars
 - d. 0, because they are all intermediate goods
 - e. 10,000, because they are the only "final" goods and services in the total

5. Suppose a woman has an exterminator treat her house every month but she then marries the exterminator who now performs the service for free. As a result, given nothing else has changed, GDP would
 - a. increase
 - b. decrease
 - c. not change, because services are not counted in the first place
 - d. not change, as the activity occurred monthly
 - e. not change, because the activity is an intermediate good or service

6. A Texas oil company extracts petroleum and sells it to a refinery for \$1,000. After processing, the refinery sells the gasoline to a wholesaler for \$1,500, who then sells it to a gas station for \$1,700. The gas station sells it to customers for \$2,500. In these transactions, how much has been added to GDP?
- \$1,000
 - \$1,500
 - \$1,700
 - \$2,500
 - \$6,700
7. Susie grows corn in her backyard garden to feed her family. The corn she grows is not counted in GDP because
- it was not produced for the marketplace
 - it is an intermediate good that Susie will process further before feeding her family
 - goods produced using land are not included in GDP
 - the corn has no value
8. Assume net exports are -\$220, consumption is \$5,000, tax revenues are \$1,000, government purchases are \$1,500, and 2003 GDP, calculated by the expenditure approach, is \$8,000. We can conclude that
- private investment was \$1,940
 - public investment was \$310
 - private investment was \$320
 - private investment was \$1,720
 - public investment was \$1,730
9. An example of a capital good is
- food produced by U.S. farmers in 2003
 - the pickup truck that your friend drives to school
 - a house owned and occupied by a family
 - the rent your friend paid last year for a college apartment
 - a share of General Electric Company stock
10. Purchases of stocks and bonds are examples of investment spending.
- True
 - False