ECON 114 1st MT Sample Test

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Which one of the following is a necessary consequence of scarcity? 1) _____
   A) all wants are satisfied
   B) low profits
   C) no choices required
   D) the requirement of making choices
   E) high profits

2) Opportunity cost is 2) _____
   A) the value of your favourite activity.
   B) the money you spend on food, shelter, and clothing.
   C) your value of leisure.
   D) the highest–valued alternative that we give up to get something.
   E) the marginal benefit from an activity.

3) Wages, salaries, and supplementary labour income are components of which approach to measuring GDP? 3) _____
   A) Expenditure approach.
   B) Income approach.
   C) Value–added approach.
   D) Output approach.
   E) Injections approach.

4) Complete the following sentence. Economic *models* 4) _____
   A) include most of the details of the economic world.
   B) describe some aspect of the economic world, but include only those features needed for the purpose at hand.
   C) answer questions that arise from normative statements.
   D) were first developed in the 1970s.
   E) do not answer questions about the economic world.

5) Which one of the following flows from firms to households? 5) _____
   A) Payments for goods and services.
   B) Factor services.
   C) Goods and services.
   D) Loans.
   E) Payments for loans.

6) The firm that printed your textbook bought the paper from XYZ Paper Mills. 6) _____
   This purchase of paper _____ part of GDP because the paper is _____ good.
   A) is; an intermediate
   B) is; a nonrenewable
   C) is not; an intermediate
   D) is not; a final
   E) is; a final

7) Suppose Angela falls in love with and subsequently marries her regularly employed housekeeper, Tony. What effect would this action have on GDP? 7) _____

A) It would rise.
B) It would fall but then increase after the honeymoon was over.
C) It depends on whether he starts to work in the house free of charge or whether she still pays him.
D) It would stay the same.
E) It would fall.

8) In the *National Income and Expenditure Accounts*, government expenditure refers to spending on goods and services by 8) _____

A) federal, provincial, and local governments.
B) federal and provincial governments only.
C) the federal government and local governments only. Provincial government expenditures are included in provincial GDP calculations.
D) the federal government only. Provincial and local government expenditures are included in provincial GDP calculations.
E) provincial and local governments only.

9) The income approach to measuring GDP is derived by adding together 9) _____

A) the value added of each firm in the economy.
B) the total expenditures of consumers, investors, net exporters, and purchases of all levels of government.
C) wages, salaries and supplementary labour income, corporate profits, interest and miscellaneous investment income, farmers' income, and income of non–farm unincorporated businesses, plus indirect taxes less subsidies, plus depreciation.
D) the value added of each firm in the economy, indirect business taxes, depreciation, and by subtracting subsidies paid by the government.
E) wages, salaries and supplementary labour income, corporate profits, interest and miscellaneous investment income, farmers' income, subsidies paid by the government, indirect taxes paid, and income of non–farm unincorporated businesses.

10) In calculating GDP, economists use the value of final goods and services because 10) _____

A) final goods can be exported to other countries.
B) GDP is underestimated if intermediate goods are used instead.
C) by using final goods and services, they avoid double counting.
D) intermediate goods are imported from other countries.
E) none of the above.

11) One of the reasons why real GDP grows is that 11) _____

A) people have more income.
B) prices increase.
C) imports increase.
D) governments collect more taxes.
E) capital grows as a result of investment.

12) The consumer price index is a measure of 12) _____

A) the lowest prices paid by urban consumers for a fixed basket of consumer goods and services.
B) the commodity prices paid by urban consumers for a fixed basket of consumer goods and services.
C) the consumer prices paid by average households for a fixed basket of goods and services.
D) the average of the prices paid by rural consumers for a fixed basket of consumer goods and services.
E) the average of the prices paid by urban consumers for a fixed basket of consumer goods and services.

13) The change in capital from year to year is equal to 13) _____

A) savings.
B) gross investment.
C) gross investment minus depreciation.
D) gross investment minus net investment.
E) net investment minus depreciation

14) Which one of the following is *not* an example of investment in the expenditure approach to measuring GDP? General Motors 14) _____

A) buys a new auto stamping machine.
B) adds 500 new cars to inventories.
C) builds another assembly plant.
D) replaces some worn–out stamping machines.
E) buys shares in another company.

15) Statements about "what ought to be" are called 15) _____

A) positive statements.
B) normative statements.
C) scientific statements.
D) hypotheses.
E) economic statements.

16) Which one of the following is *true*? 16) _____

A) $Y + M = C + I + G$
B) $I + G + X = Y + I + M$
C) $Y = C + I + G + M - X$
D) $Y = C + S + I$
E) $Y = C + I + G + X - M$

17) Which one of the following would *not* be counted as part of this year's GDP? 17) _____

A) The purchase of wheat that was produced in the current year by a Saskatchewan farmer.
B) The government bond you buy for your newborn niece.
C) The purchase of a house that was produced in the current year.
D) The lumber you purchase when building bookshelves for your room.
E) The purchase of a new personal computer that was produced in the current year.

18) The reference base period is 2002. A consumer price index of 122 in 2009 means that 18) _____

A) if the price of a good was $100 in 2002, its price in 2009 is $122.
B) prices of consumer goods have gone up by a factor of 12.2.
C) prices of consumer goods have more than doubled.
D) the market basket of consumer goods that cost $122 in 2002 can be purchased for $100 in 2009.
E) the average of the prices paid by urban consumers for a fixed market basket of consumer goods and services was 22 percent higher in 2009 than it was on average during 2002.

19) Gross domestic product is 19) _____

A) the final value of all goods produced in a country in a given time period.
B) the market value of all the intermediate goods and services produced in a country during a given time period.
C) the average value of output produced in a country in a given time period.
D) the market value of all goods and services produced in a country during a given time period.
E) the market value of all the final goods and services produced in a country during a given time period.

20) Which approach to measuring GDP is being used when Statistics Canada sums spending on goods and services for consumer goods, government, business investments and exports, net of imports? 20) _____

A) Income.
B) Value added.
C) Factor cost.
D) Expenditure.
E) Opportunity cost.

21) The expenditure approach measures GDP by adding together 21) _____

A) wages, salaries and supplementary labour income, corporate profits, interest and miscellaneous investment income, farmers' income, subsidies paid by the government, indirect taxes paid, and income of nonfarm unincorporated businesses.
B) the total expenditures of consumers, firms, net exporters, and by governments at all levels.
C) the total expenditures of consumers and firms.
D) wages, salaries and supplementary labour income, corporate profits, interest and miscellaneous investment income, farmers' income, and income of nonfarm unincorporated businesses.
E) compensation of employees, rental income, corporate profits, net interest, proprietors' income, indirect taxes paid, and capital consumption expenditures, and by subtracting subsidies paid by the government.

22) The existence of which one of the following is a reason for the fact that GDP gives an underestimated value of total output in the economy? 22) _____

A) Environmental problems.
B) Pollution.
C) Underground economy.
D) Depreciation.
E) Market activities.

23) Which of the following would *not* be included in GDP for 2009? 23) _____

A) A car produced in January of 2009 and sold in November of 2009.
B) A car produced in 2009 and held in inventory until 2010.
C) A car produced in 2008 and sold in 2009.
D) A car produced in 2009 and sold in 2010.
E) The value of all cars produced in 2009.

24) Which of the following items would be included in a current measure of GDP? 24) _____

A) Your labour in fixing a leaky pipe under your sink.
B) The illegal sale of a bag of marijuana.
C) The value of safety on the streets of your community.
D) A professional gardener who regularly cuts your lawn.
E) All of the above.

25) Sally has to decide whether to study for her economics test or her accounting test. If she chooses to study for accounting, her opportunity cost of studying accounting is 25) _____

A) not comparable to the value of studying economics.
B) the future lost wages that will occur if she fails her accounting exam.
C) less than the value of studying economics.
D) studying economics.
E) equal to the value of studying economics.

26) For the aggregate economy, income equals 26) _____

A) expenditure equals GDP only if there is no government or foreign sectors.
B) expenditure, but these are not generally equal to GDP.
C) GDP, but expenditure is generally less than these.
D) expenditure equals GDP.
E) expenditure equals GDP only if there is no depreciation.

27) Nominal GDP will increase 27) _____

A) only if the average level of prices rises.
B) only if the unemployment rate rises.
C) only if the quantity of goods and services produced increases.
D) if either the average level of prices rises or the quantity of goods and services produced increases.
E) only if both the average level of prices rises and the quantity of goods and services produced increases.

28) If there is a 5 percent increase in the CPI, then there will most likely be 28) _____

A) a more than 5 percent rise in the cost of living because of the introduction of new goods.
B) a 5 percent rise in the cost of living.
C) a less than 5 percent rise in the cost of living because of falling quality of goods over time.
D) a more than 5 percent rise in the cost of living because of consumers substituting away from goods whose relative prices rise towards other goods.
E) a less than 5 percent rise in the cost of living because of consumers substituting away from goods whose relative prices rise towards other goods.

29) To make choices, people must 29) _____

A) be free from government constraint.
B) have unlimited access to information at no cost.
C) evaluate the values of alternative actions.
D) have unlimited resources.
E) be able to carry out complex mathematical calculations.

30) Marginal benefit is the 30) _____

A) total benefit from an activity.
B) opportunity cost of an increase in an activity.
C) opportunity cost of a decrease in an activity.
D) additional benefit from a decrease in an activity.
E) additional benefit from an increase in an activity.

Answer Key
Testname: UNTITLED1

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