Macroeconomics 13th edition Dornbusch Test Bank

SKU: 9781259290633-TEST-BANK

Macroeconomics, 13e **(Dornbusch)**
Chapter 2 National Income Accounting

1) In calculating this year's GDP, national income accountants
A) include any increase in stock values
B) include an estimate for income from illegal activities
C) exclude Social Security payments to retirees
D) exclude the value of any repairs made on existing property
E) exclude the value of new pollution control equipment that is being installed

2) Assume you built a new house, bought a used car, and bought some government bonds. Which of the following statements is true of the components of aggregate demand?
A) consumption and government purchases went up since you bought a used car and government bonds
B) consumption and investment went up since you bought a used car and government bonds
C) investment and government purchases went up since you built a new house and bought government bonds
D) investment went up since you built a new house
E) consumption went up since you built a new house

3) Which of the following statements is true?
A) NDP is greater than GDP if prices are falling
B) NDP is greater than GDP if prices are rising
C) NDP can be greater than GDP but only if the economy is growing
D) NDP cannot be greater than GDP
E) NDP must always be greater than GDP

4) An increase in business inventories is counted as
A) a decrease in capital stock
B) an increase in consumption
C) an increase in investment
D) an increase in depreciation
E) none of the above

5) The difference between gross domestic investment and net domestic investment is equal to
A) unwanted inventory changes
B) the difference between NDP and national income
C) the addition to the capital stock
D) the difference between GDP and NDP
E) none of the above

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6) Assume nominal GDP increased by 4.2% in the U.S. but by only 3.4% in Germany. We can definitely conclude that
A) the standard of living of the people in the U.S. went up more than the standard of living of the people in Germany
B) real economic growth in the U.S. was higher than in Germany
C) inflation in the U.S. was 0.8% higher than in Germany
D) productivity growth in the U.S. was higher than in Germany
E) none of the above

7) Assume you deplete your savings to buy a new sofa and some government bonds and then take a vacation in a foreign country. Which of the following is true?
A) consumption will increase
B) net exports will increase
C) government purchases will increase
D) investment will increase
E) all of the above

8) If gross investment were zero, which of the following would be true?
A) the existing capital stock would stay the same
B) net investment would be positive
C) net investment would be negative
D) depreciation would be zero
E) depreciation would be negative

9) Depreciation is
A) the difference between gross investment and net investment
B) the difference between GDP and NDP
C) the difference between GNP and NNP
D) the consumption of fixed capital
E) all of the above

10) If we counted the value of autoworkers' salaries, wheels, tires, steel, body parts, and final car sales in calculating GDP, then we would be
A) understating GDP by overlooking car dealers' profits
B) ignoring the contribution of capital to output
C) overstating GDP through double counting
D) using the value-added technique for calculating GDP
E) calculating GDP correctly only if we excluded any imported cars

11) As defined in our text, private domestic investment (I) does NOT include
A) new residential construction except on farms
B) movable machinery such as trucks or tractors used by businesses
C) inventory accumulation, unless it was planned or intended
D) stocks purchased on a stock exchange
E) new additions to existing factories

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12) Assume a U.S. dealer bought 100 TVs from South Korea for $250 each in 2012. He subsequently sold 80 of them in 2012 for $450 each and the rest in 2013 for $400 each. By how much was the U.S. GDP affected in 2012?
A) $45,000
B) $36,000
C) $19,000
D) $16,000
E) $11,000

13) In 1994, U.S. GDP was $6,931, GNP was $6,922, and NNP was $6,104 (all numbers are in billions of dollars). We can conclude that
A) depreciation was $818 billion
B) depreciation was $1,436 billion
C) the addition to the capital stock was $1,436 billion
D) the addition to the capital stock was $1,427 billion
E) indirect business taxes were $9 billion

14) For a simple economy with no depreciation, no government, and no foreign sector, which of the following identities would be correct?
A) $Y \equiv C$
B) $C - I \equiv S$
C) $Y - C \equiv S$
D) $Y - C \equiv S + I$
E) $Y \equiv C + S - I$

15) Which of the following identities is FALSE?
A) $Y \equiv C + I + G + NX$
B) $YD \equiv Y - TA + TR$
C) $BS \equiv TA - TR - G$
D) $I - S \equiv (G - TA + TR) + NX$
E) $S + TA - TR \equiv I + G + NX$

16) If private domestic saving in an economy increases, which is the most likely to occur?
A) a decrease in the budget deficit
B) a decrease in net exports
C) an increase in consumption
D) an increase in imports
E) an increase in private domestic investment

17) Assume the budget deficit increases. Which of the following can happen?
A) private domestic saving can increase
B) private domestic investment can decrease
C) imports can increase
D) exports can decrease
E) all of the above

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18) If the government increases taxes, which of the following is LEAST likely to occur?
A) a decrease in private domestic saving
B) a decrease in consumption
C) an increase in private domestic investment
D) a decrease in net exports
E) a decrease in national income

19) Assume that GDP = 4,800, consumption = 3,400, private domestic savings = 400, government purchases = 1,200, and net exports = -120. Which of the following is true?
A) disposable income is 3,800
B) private domestic investment is 320
C) the budget deficit is 200
D) all of the above
E) only A and C

20) If private domestic saving is 960, private domestic investment is 780, and the government spends 300 more than it receives in tax revenues, then it follows that
A) the trade deficit is 120
B) the trade deficit is 300
C) the trade deficit is 420
D) the trade surplus is 120
E) the trade surplus is 180

21) Assume that GDP = 8,100, consumption = 5,400, gross private domestic investment = 1,200, and government purchases = 1,600. Which of the following is true?
A) imports exceed exports by 100
B) exports exceed imports by 100
C) depreciation is 100
D) net factor income from abroad is 100
E) both B and D

22) Assume exports = 300, imports = 400, tax revenues = 1,100, government purchases = 1,400, private domestic saving = 900. Then the level of private domestic investment is
A) 600
B) 700
C) 900
D) 1,100
E) 1,300

23) If imports increase by $15 billion, which of the following has to happen for GDP to rise?
A) consumption has to increase by more than $15 billion
B) government purchases have to increase by more than $15 billion
C) private domestic investment has to increase by more than $15 billion
D) private domestic saving has to increase by more than $15 billion
E) either A, B, or C would be sufficient to increase GDP

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24) As a percentage of GNP, the U.S. federal debt
A) sharply increased in the 1980s, decreased in the 1990s, and increased again after 2000
B) decreased steadily from World War II to the year 2000
C) increased steadily from 1960 to 2013
D) was never lower than 20 percent
E) never exceeded 100 percent

25) If private domestic saving exceeds private domestic investment by $220 billion and government spending exceeds tax revenue by $340 billion, then
A) the trade deficit is $560 billion
B) the trade surplus is $560 billion
C) the trade deficit is $120 billion
D) the trade surplus is $120 billion
E) the trade deficit is $340 billion

26) If the national income of an economy is 5,200, the disposable income is 4,400, the consumption is 4,100, the trade deficit is 110, and the budget deficit is 150, what is the level of private domestic investment in the economy?
A) 1,060
B) 540
C) 300
D) 260
E) 40

27) Assume government purchases = $1,500, the budget deficit = $120, consumption = $4,800, private domestic saving = $1,220, the trade deficit = $90, and transfer payments = $0. Which of the following is true?
A) private domestic investment is $1,190
B) national income is $7,400
C) disposable income is $6,020
D) all of the above
E) only A and C

28) If the U.S. budget deficit increased substantially while private domestic saving and private domestic investment remained roughly the same, then
A) the U.S. imported more than it exported
B) the U.S. exported more than it imported
C) the U.S. must have experienced a major recession
D) there must have been a major drop in U.S. interest rates
E) all of the above

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29) Assume the budget deficit decreased by $15 billion, private domestic saving decreased by $20 billion, exports increased by $10 billion, and imports increased by $15 billion. By how much did private domestic investment change?
A) private domestic investment decreased by $10 billion
B) private domestic investment increased by $10 billion
C) private domestic investment did not change at all
D) private domestic investment decreased by $20 billion
E) the change in private domestic investment cannot be determined from this information

30) The budget deficits in the early 1980s were largely financed through
A) an increase in private domestic saving
B) an increase in private domestic investment
C) an increase in net exports
D) a decrease in net exports
E) none of the above

31) If the budget surplus of an economy increases, which of the following is likely to happen if the economy remains in equilibrium?
A) imports will increase more than exports
B) exports will increase more than imports
C) private domestic saving will increase more than private domestic investment
D) private domestic investment will remain the same, while private domestic saving will increase
E) private domestic investment will decrease

32) If we look at U.S. net exports from 1960 to 2016, we realize that
A) the U.S. had consistent large trade deficits in the 1960s
B) the U.S. never had a trade imbalance in the 1970s
C) U.S. trade deficits decreased greatly from early to mid-1980s
D) the U.S. never had a trade surplus until after 2000
E) U.S. trade deficits decreased substantially between 1997 and 2000

33) If the official U.S. unemployment rate has increased, which of the following must have occurred?
A) more workers have become discouraged and stopped looking for jobs
B) more people have been forced to work in part-time rather than full-time jobs
C) there has been a decrease in the work force as fewer job openings were listed
D) more people have become only "marginally attached" to the work force
E) none of the above

34) The PCE deflator measures
A) the average price increase of raw materials purchased by producers
B) the average price increase of energy prices
C) price changes in consumer expenditures based on national income accounts
D) price changes of final as well as semi-finished goods
E) the average price increase of all final goods excluding energy

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35) The GDP-deflator and the producer price index (PPI) differ since
A) the PPI measures a fixed market basket but the GDP-deflator doesn't
B) the GDP-deflator includes imported goods but the PPI doesn't
C) the PPI includes more goods than the GDP-deflator
D) the GDP-deflator does not include services but the PPI does
E) the GDP-deflator measures increases in inflation earlier than the PPI

36) Assume that the prices of cars manufactured in the U.S. increase due to an increase in quality. Which of the following will happen if the same number of cars is sold?
A) real GDP should increase but nominal GDP should stay the same
B) nominal GDP should increase
C) the GDP-deflator should decrease
D) real GDP and the GDP-deflator should decrease
E) all of the above

37) If nominal GDP was $9,200 billion in Year 1 and $9,420 billion in Year 2 and prices increased from Year 1 to Year 2, then
A) real GDP must have been larger in Year 1 than in Year 2
B) real GDP must have been larger in Year 2 than in Year 1
C) the GDP deflator must have been 122
D) the GDP deflator must have been 102
E) we cannot determine the value of the GDP deflator or real GDP in Year 2

38) If nominal GDP is $8,820 billion and the GDP-deflator is 105, then real GDP is
A) $9,261 billion
B) $8,925 billion
C) $8,715 billion
D) $8,400 billion
E) $8,000 billion

39) If nominal GDP increased from $8,000 billion in the base year to $8,400 billion in the following year and real GDP stayed the same, which is true?
A) the GDP-deflator increased from 100 to 110
B) the GDP-deflator increased from 80 to 100
C) the GDP-deflator increased from 100 to 120
D) prices increased on average by 5 percent
E) prices increased on average by 10 percent

40) If nominal GDP was about $600 billion and real GDP was about $2,400 billion in 1962, then the GDP-deflator for that year was
A) 25
B) 40
C) 125
D) 200
E) 400

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41) Assume nominal GDP was $16.0 trillion in Year 1 and $17.6 trillion in Year 2. If Year 1 is the base year, then
A) the GDP-deflator is 110
B) prices increased on average by 10 percent
C) real GDP has not changed
D) none of the above can be true
E) both A and B are true, but only if C is true

42) The official unemployment rate of a country is most likely to decrease if
A) the number of people who are out of work but expect to be recalled from a layoff increases
B) the number of people living in the country increases
C) the labor force decreases more than the overall population
D) more people who are currently out of work decide to give up looking for a job
E) none of the above

43) Which of the following is TRUE?
A) core inflation excludes price changes for food and energy
B) core inflation only includes price changes for food and energy
C) core inflation is reported for the CPI but not the for the PCE deflator
D) the PCE deflator measures the average price change of a market basket of consumer goods
E) the PCE deflator only measures price changes in energy

44) The CPI, a price index used to measure inflation, is imperfect since
A) it only measures those goods that are included in the market basket
B) it takes into account quality improvements
C) many payments are indexed for inflation
D) it does not include services
E) only A and B

45) The consumer price index (CPI) and the producer price index (PPI) differ from each other since
A) the PPI includes import goods but the CPI doesn't
B) the CPI usually rises sooner than the PPI
C) the composition of their market baskets is different
D) the PPI does not measure price increases of a fixed market basket
E) the CPI never overestimates inflation but the PPI often does

46) If the nominal interest rate on a government bond is 6% and the rate of inflation is 4%, what is your real rate of return on this government bond?
A) -2%
B) +2%
C) +4%
D) +6%
E) +10%

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47) Assume you can exchange 10 Mexican pesos for one U.S. dollar, but you need only 0.64 British pounds to get one U.S dollar. What does this imply?
A) product prices in Great Britain are much cheaper than in Mexico
B) product prices in Great Britain are much more expensive than in Mexico
C) you can get about 36 Mexican pesos for one British pound
D) you can get about 64 Mexican pesos for one British pound
E) none of the above

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Macroeconomics, 13e **(Dornbusch)**
Chapter 2 National Income Accounting

1) In calculating this year's GDP, national income accountants
A) include any increase in stock values
B) include an estimate for income from illegal activities
C) exclude Social Security payments to retirees
D) exclude the value of any repairs made on existing property
E) exclude the value of new pollution control equipment that is being installed

Answer: C
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

2) Assume you built a new house, bought a used car, and bought some government bonds. Which of the following statements is true of the components of aggregate demand?
A) consumption and government purchases went up since you bought a used car and government bonds
B) consumption and investment went up since you bought a used car and government bonds
C) investment and government purchases went up since you built a new house and bought government bonds
D) investment went up since you built a new house
E) consumption went up since you built a new house

Answer: D
Difficulty: 2 Medium
Accessibility: Keyboard Navigation

3) Which of the following statements is true?
A) NDP is greater than GDP if prices are falling
B) NDP is greater than GDP if prices are rising
C) NDP can be greater than GDP but only if the economy is growing
D) NDP cannot be greater than GDP
E) NDP must always be greater than GDP

Answer: D
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

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4) An increase in business inventories is counted as
A) a decrease in capital stock
B) an increase in consumption
C) an increase in investment
D) an increase in depreciation
E) none of the above

Answer: C
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

5) The difference between gross domestic investment and net domestic investment is equal to
A) unwanted inventory changes
B) the difference between NDP and national income
C) the addition to the capital stock
D) the difference between GDP and NDP
E) none of the above

Answer: D
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

6) Assume nominal GDP increased by 4.2% in the U.S. but by only 3.4% in Germany. We can definitely conclude that
A) the standard of living of the people in the U.S. went up more than the standard of living of the people in Germany
B) real economic growth in the U.S. was higher than in Germany
C) inflation in the U.S. was 0.8% higher than in Germany
D) productivity growth in the U.S. was higher than in Germany
E) none of the above

Answer: E
Difficulty: 2 Medium
Accessibility: Keyboard Navigation

7) Assume you deplete your savings to buy a new sofa and some government bonds and then take a vacation in a foreign country. Which of the following is true?
A) consumption will increase
B) net exports will increase
C) government purchases will increase
D) investment will increase
E) all of the above

Answer: A
Difficulty: 1 Easy
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8) If gross investment were zero, which of the following would be true?
A) the existing capital stock would stay the same
B) net investment would be positive
C) net investment would be negative
D) depreciation would be zero
E) depreciation would be negative

Answer: C
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

9) Depreciation is
A) the difference between gross investment and net investment
B) the difference between GDP and NDP
C) the difference between GNP and NNP
D) the consumption of fixed capital
E) all of the above

Answer: D
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

10) If we counted the value of autoworkers' salaries, wheels, tires, steel, body parts, and final car sales in calculating GDP, then we would be
A) understating GDP by overlooking car dealers' profits
B) ignoring the contribution of capital to output
C) overstating GDP through double counting
D) using the value-added technique for calculating GDP
E) calculating GDP correctly only if we excluded any imported cars

Answer: C
Difficulty: 2 Medium
Accessibility: Keyboard Navigation

11) As defined in our text, private domestic investment (I) does NOT include
A) new residential construction except on farms
B) movable machinery such as trucks or tractors used by businesses
C) inventory accumulation, unless it was planned or intended
D) stocks purchased on a stock exchange
E) new additions to existing factories

Answer: D
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

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12) Assume a U.S. dealer bought 100 TVs from South Korea for $250 each in 2012. He subsequently sold 80 of them in 2012 for $450 each and the rest in 2013 for $400 each. By how much was the U.S. GDP affected in 2012?
A) $45,000
B) $36,000
C) $19,000
D) $16,000
E) $11,000

Answer: E
Difficulty: 2 Medium
Accessibility: Keyboard Navigation

13) In 1994, U.S. GDP was $6,931, GNP was $6,922, and NNP was $6,104 (all numbers are in billions of dollars). We can conclude that
A) depreciation was $818 billion
B) depreciation was $1,436 billion
C) the addition to the capital stock was $1,436 billion
D) the addition to the capital stock was $1,427 billion
E) indirect business taxes were $9 billion

Answer: A
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

14) For a simple economy with no depreciation, no government, and no foreign sector, which of the following identities would be correct?
A) $Y \equiv C$
B) $C - I \equiv S$
C) $Y - C \equiv S$
D) $Y - C \equiv S + I$
E) $Y \equiv C + S - I$

Answer: C
Difficulty: 2 Medium
Accessibility: Keyboard Navigation

15) Which of the following identities is FALSE?
A) $Y \equiv C + I + G + NX$
B) $YD \equiv Y - TA + TR$
C) $BS \equiv TA - TR - G$
D) $I - S \equiv (G - TA + TR) + NX$
E) $S + TA - TR \equiv I + G + NX$

Answer: D
Difficulty: 2 Medium
Accessibility: Keyboard Navigation

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16) If private domestic saving in an economy increases, which is the most likely to occur?
A) a decrease in the budget deficit
B) a decrease in net exports
C) an increase in consumption
D) an increase in imports
E) an increase in private domestic investment

Answer: E
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

17) Assume the budget deficit increases. Which of the following can happen?
A) private domestic saving can increase
B) private domestic investment can decrease
C) imports can increase
D) exports can decrease
E) all of the above

Answer: E
Difficulty: 2 Medium
Accessibility: Keyboard Navigation

18) If the government increases taxes, which of the following is LEAST likely to occur?
A) a decrease in private domestic saving
B) a decrease in consumption
C) an increase in private domestic investment
D) a decrease in net exports
E) a decrease in national income

Answer: D
Difficulty: 2 Medium
Accessibility: Keyboard Navigation

19) Assume that GDP = 4,800, consumption = 3,400, private domestic savings = 400, government purchases = 1,200, and net exports = -120. Which of the following is true?
A) disposable income is 3,800
B) private domestic investment is 320
C) the budget deficit is 200
D) all of the above
E) only A and C

Answer: D
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20) If private domestic saving is 960, private domestic investment is 780, and the government spends 300 more than it receives in tax revenues, then it follows that
A) the trade deficit is 120
B) the trade deficit is 300
C) the trade deficit is 420
D) the trade surplus is 120
E) the trade surplus is 180

Answer: A
Difficulty: 2 Medium
Accessibility: Keyboard Navigation

21) Assume that GDP = 8,100, consumption = 5,400, gross private domestic investment = 1,200, and government purchases = 1,600. Which of the following is true?
A) imports exceed exports by 100
B) exports exceed imports by 100
C) depreciation is 100
D) net factor income from abroad is 100
E) both B and D

Answer: A
Difficulty: 2 Medium
Accessibility: Keyboard Navigation

22) Assume exports = 300, imports = 400, tax revenues = 1,100, government purchases = 1,400, private domestic saving = 900. Then the level of private domestic investment is
A) 600
B) 700
C) 900
D) 1,100
E) 1,300

Answer: B
Difficulty: 2 Medium
Accessibility: Keyboard Navigation

23) If imports increase by $15 billion, which of the following has to happen for GDP to rise?
A) consumption has to increase by more than $15 billion
B) government purchases have to increase by more than $15 billion
C) private domestic investment has to increase by more than $15 billion
D) private domestic saving has to increase by more than $15 billion
E) either A, B, or C would be sufficient to increase GDP

Answer: E
Difficulty: 1 Easy
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24) As a percentage of GNP, the U.S. federal debt
A) sharply increased in the 1980s, decreased in the 1990s, and increased again after 2000
B) decreased steadily from World War II to the year 2000
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D) was never lower than 20 percent
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Answer: A
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

25) If private domestic saving exceeds private domestic investment by $220 billion and government spending exceeds tax revenue by $340 billion, then
A) the trade deficit is $560 billion
B) the trade surplus is $560 billion
C) the trade deficit is $120 billion
D) the trade surplus is $120 billion
E) the trade deficit is $340 billion

Answer: C
Difficulty: 2 Medium
Accessibility: Keyboard Navigation

26) If the national income of an economy is 5,200, the disposable income is 4,400, the consumption is 4,100, the trade deficit is 110, and the budget deficit is 150, what is the level of private domestic investment in the economy?
A) 1,060
B) 540
C) 300
D) 260
E) 40

Answer: D
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27) Assume government purchases = $1,500, the budget deficit = $120, consumption = $4,800, private domestic saving = $1,220, the trade deficit = $90, and transfer payments = $0. Which of the following is true?
A) private domestic investment is $1,190
B) national income is $7,400
C) disposable income is $6,020
D) all of the above
E) only A and C

Answer: D
Difficulty: 3 Hard
Accessibility: Keyboard Navigation

28) If the U.S. budget deficit increased substantially while private domestic saving and private domestic investment remained roughly the same, then
A) the U.S. imported more than it exported
B) the U.S. exported more than it imported
C) the U.S. must have experienced a major recession
D) there must have been a major drop in U.S. interest rates
E) all of the above

Answer: A
Difficulty: 2 Medium
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29) Assume the budget deficit decreased by $15 billion, private domestic saving decreased by $20 billion, exports increased by $10 billion, and imports increased by $15 billion. By how much did private domestic investment change?
A) private domestic investment decreased by $10 billion
B) private domestic investment increased by $10 billion
C) private domestic investment did not change at all
D) private domestic investment decreased by $20 billion
E) the change in private domestic investment cannot be determined from this information

Answer: C
Difficulty: 3 Hard
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30) The budget deficits in the early 1980s were largely financed through
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C) an increase in net exports
D) a decrease in net exports
E) none of the above

Answer: D
Difficulty: 2 Medium
Accessibility: Keyboard Navigation

31) If the budget surplus of an economy increases, which of the following is likely to happen if the economy remains in equilibrium?
A) imports will increase more than exports
B) exports will increase more than imports
C) private domestic saving will increase more than private domestic investment
D) private domestic investment will remain the same, while private domestic saving will increase
E) private domestic investment will decrease

Answer: B
Difficulty: 2 Medium
Accessibility: Keyboard Navigation

32) If we look at U.S. net exports from 1960 to 2016, we realize that
A) the U.S. had consistent large trade deficits in the 1960s
B) the U.S. never had a trade imbalance in the 1970s
C) U.S. trade deficits decreased greatly from early to mid-1980s
D) the U.S. never had a trade surplus until after 2000
E) U.S. trade deficits decreased substantially between 1997 and 2000

Answer: C
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

33) If the official U.S. unemployment rate has increased, which of the following must have occurred?
A) more workers have become discouraged and stopped looking for jobs
B) more people have been forced to work in part-time rather than full-time jobs
C) there has been a decrease in the work force as fewer job openings were listed
D) more people have become only "marginally attached" to the work force
E) none of the above

Answer: E
Difficulty: 2 Medium
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34) The PCE deflator measures
A) the average price increase of raw materials purchased by producers
B) the average price increase of energy prices
C) price changes in consumer expenditures based on national income accounts
D) price changes of final as well as semi-finished goods
E) the average price increase of all final goods excluding energy

Answer: C
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

35) The GDP-deflator and the producer price index (PPI) differ since
A) the PPI measures a fixed market basket but the GDP-deflator doesn't
B) the GDP-deflator includes imported goods but the PPI doesn't
C) the PPI includes more goods than the GDP-deflator
D) the GDP-deflator does not include services but the PPI does
E) the GDP-deflator measures increases in inflation earlier than the PPI

Answer: A
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

36) Assume that the prices of cars manufactured in the U.S. increase due to an increase in quality. Which of the following will happen if the same number of cars is sold?
A) real GDP should increase but nominal GDP should stay the same
B) nominal GDP should increase
C) the GDP-deflator should decrease
D) real GDP and the GDP-deflator should decrease
E) all of the above

Answer: B
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

37) If nominal GDP was $9,200 billion in Year 1 and $9,420 billion in Year 2 and prices increased from Year 1 to Year 2, then
A) real GDP must have been larger in Year 1 than in Year 2
B) real GDP must have been larger in Year 2 than in Year 1
C) the GDP deflator must have been 122
D) the GDP deflator must have been 102
E) we cannot determine the value of the GDP deflator or real GDP in Year 2

Answer: E
Difficulty: 2 Medium
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38) If nominal GDP is $8,820 billion and the GDP-deflator is 105, then real GDP is
A) $9,261 billion
B) $8,925 billion
C) $8,715 billion
D) $8,400 billion
E) $8,000 billion

Answer: D
Difficulty: 2 Medium
Accessibility: Keyboard Navigation

39) If nominal GDP increased from $8,000 billion in the base year to $8,400 billion in the following year and real GDP stayed the same, which is true?
A) the GDP-deflator increased from 100 to 110
B) the GDP-deflator increased from 80 to 100
C) the GDP-deflator increased from 100 to 120
D) prices increased on average by 5 percent
E) prices increased on average by 10 percent

Answer: D
Difficulty: 2 Medium
Accessibility: Keyboard Navigation

40) If nominal GDP was about $600 billion and real GDP was about $2,400 billion in 1962, then the GDP-deflator for that year was
A) 25
B) 40
C) 125
D) 200
E) 400

Answer: A
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

41) Assume nominal GDP was $16.0 trillion in Year 1 and $17.6 trillion in Year 2. If Year 1 is the base year, then
A) the GDP-deflator is 110
B) prices increased on average by 10 percent
C) real GDP has not changed
D) none of the above can be true
E) both A and B are true, but only if C is true

Answer: D
Difficulty: 1 Easy
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42) The official unemployment rate of a country is most likely to decrease if
A) the number of people who are out of work but expect to be recalled from a layoff increases
B) the number of people living in the country increases
C) the labor force decreases more than the overall population
D) more people who are currently out of work decide to give up looking for a job
E) none of the above

Answer: D
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

43) Which of the following is TRUE?
A) core inflation excludes price changes for food and energy
B) core inflation only includes price changes for food and energy
C) core inflation is reported for the CPI but not the for the PCE deflator
D) the PCE deflator measures the average price change of a market basket of consumer goods
E) the PCE deflator only measures price changes in energy

Answer: A
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

44) The CPI, a price index used to measure inflation, is imperfect since
A) it only measures those goods that are included in the market basket
B) it takes into account quality improvements
C) many payments are indexed for inflation
D) it does not include services
E) only A and B

Answer: A
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

45) The consumer price index (CPI) and the producer price index (PPI) differ from each other since
A) the PPI includes import goods but the CPI doesn't
B) the CPI usually rises sooner than the PPI
C) the composition of their market baskets is different
D) the PPI does not measure price increases of a fixed market basket
E) the CPI never overestimates inflation but the PPI often does

Answer: C
Difficulty: 1 Easy
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46) If the nominal interest rate on a government bond is 6% and the rate of inflation is 4%, what is your real rate of return on this government bond?
A) -2%
B) +2%
C) +4%
D) +6%
E) +10%

Answer: B
Difficulty: 1 Easy
Accessibility: Keyboard Navigation

47) Assume you can exchange 10 Mexican pesos for one U.S. dollar, but you need only 0.64 British pounds to get one U.S dollar. What does this imply?
A) product prices in Great Britain are much cheaper than in Mexico
B) product prices in Great Britain are much more expensive than in Mexico
C) you can get about 36 Mexican pesos for one British pound
D) you can get about 64 Mexican pesos for one British pound
E) none of the above

Answer: E
Difficulty: 1 Easy
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