

6. A firm buys materials for \$2000 from other firms in the economy and produces from them a product that sells for \$3015. The value added by the firm is (\$1015, \$2000, \$3015) _____.

7. GDP accounting excludes (production, nonproduction) _____ transactions. These include (financial, nonfinancial) _____ transactions such as public or private transfer payments or the sale of securities, and (first, second) _____ hand sales.

8. Personal consumption expenditures are the expenditures of households for goods such as automobiles, which are (durable, nondurable) _____, and goods such as food, which are _____, plus expenditures for (housing, services) _____.

9. Gross private domestic investment basically includes the final purchases of (capital, consumer) _____ goods by businesses, all (construction of new, sales of existing) _____ buildings and houses, and changes in (services, inventories) _____.

10. The difference between gross and net private domestic investment is equal to (depreciation, net exports) _____, or the (production, consumption) _____ of fixed capital.

11. If gross private domestic investment is greater than depreciation, net private domestic investment is (positive, negative) _____ and the production capacity of the economy is (declining, expanding) _____.

12. An economy's *net* exports equal its exports (minus, plus) _____ its imports. If exports are less than imports, net exports are (positive, negative) _____, but if exports are greater than imports, net exports are _____.

13. Using the expenditure approach, the GDP equation equals $(NDP + NI + PI, C + I_g + G + X_n)$ _____.

14. The compensation of employees in the system of social accounting consists of actual wages and salaries (plus, minus) _____ wage and salary supplements. Salary supplements are the payments employers make to social security or (public, private) _____ insurance programs and to _____ pension, health, and welfare funds.

15. Corporate profits are disposed of in three ways: corporate income (taxes, interest) _____, (de-

SELF-TEST

■ FILL-IN QUESTIONS

1. National income accounting is valuable because it provides a means of keeping track of the level of (unemployment, production) _____ in the economy and the course it has followed over the long run and the information needed to make public (policies, payments) _____ that will improve the performance of the economy.

2. Gross domestic product (GDP) measures the total (market, nonmarket) _____ value of all (intermediate, final) _____ goods and services produced in a country (in 1 year, over 2 years) _____.

3. GDP for a country includes goods and services produced (within, outside) _____ its geographic boundaries and (does, does not) _____ treat resources supplied by U.S. citizens differently from resources supplied by citizens of other countries.

4. GDP is a (monetary, nonmonetary) _____ measure that permits comparison of the (relative, absolute) _____ worth of goods and services.

5. In measuring GDP, only (intermediate, final) _____ goods and services are included; if _____ goods and services were included, the accountant would be (over, under) _____ stating GDP, or (single, multiple) _____ counting.

preciation, dividends) _____, and undistributed corporate (taxes, profits) _____.

16. Three adjustments are added to national income to obtain (GDP, DI) _____. They are (direct, indirect) _____ business taxes, the consumption of (variable, fixed) _____ capital, and (gross, net) _____ foreign factor income earned in the United States.

17. Gross domestic product overstates the economy's production because it fails to make allowance for (multiple counting, depreciation) _____ or the need to replace (consumer, capital) _____ goods. When this adjustment is made, the calculations produce (net domestic product, national income) _____.

18. National income is equal to net domestic product (plus, minus) _____ indirect business taxes plus (gross, net) _____ foreign factor income earned in the United States.

19. Personal income equals national income (plus, minus) _____ transfer payments _____ the sum of social security contributions, corporate income taxes, and undistributed corporate profits.

20. Disposable income equals (national, personal) _____ income (plus, minus) _____ personal taxes.

21. A GDP that reflects the prices prevailing when the output is produced is called unadjusted, or (nominal, real) _____ GDP, but a GDP figure that is deflated or inflated for price level changes is called adjusted or _____ GDP.

22. To calculate a price index in a given year, the combined price of a market basket of goods and services in that year is (divided, multiplied) _____ by the combined price of the market basket in the base year. The result is then _____ by 100.

23. Real GDP is calculated by dividing (the price index, nominal GDP) _____ by _____. The price index expressed in hundredths is calculated by dividing (real, nominal) _____ GDP by _____ GDP.

24. The consumer price index (CPI) is a (variable, fixed) _____-weight price index that measures the change in the cost of a (constant, variable) _____ standard of living.

25. For several reasons, GDP has shortcomings as a measure of total output or economic well-being.

- a. It does not include the (market, nonmarket) _____ transactions that result in the production of goods and services or the amount of (work, leisure) _____ of participants in the economy.
- b. It fails to record improvements in the (quantity, quality) _____ of the products produced, or the changes in the (level, composition) _____, and distribution of the economy's total output.
- c. It does not take into account the undesirable effects of GDP production on the (government, environment) _____ or the goods and services produced in the (market, underground) _____ economy.
- d. Because it is a measure of the *total* output of the economy, it does not measure the (marginal, per capita) _____ output of the economy.