Chapter 7

■ TRUE–FALSE QUESTIONS

Circle T if the statement is true, F if it is false.

1. National income accounting allows us to assess the performance of the economy and make policies to improve that performance. **T F**

2. Gross domestic product measures at their market values the total output of all goods and services produced in the economy during a year. **T F**

3. GDP is simply a count of the quantity of output and is not a monetary measure. **T F**

4. The total market value of the wine produced in the United States during a year is equal to the number of bottles of wine produced in that year multiplied by the (average) price at which a bottle sold during that year. **T F**

5. GDP includes the sale of intermediate goods and excludes the sale of final goods. **T F**

6. The total value added to a product and the value of the final product are equal. **T F**

7. Social security payments and other public transfer payments are counted as part of GDP. **T F**

8. The sale of stocks and bonds is excluded from GDP. **T F**

9. In computing gross domestic product, private transfer payments are excluded because they do not represent payments for currently produced goods and services. **T F**

10. The two approaches to the measurement of the gross domestic product yield identical results because one approach measures the total amount spent on the products produced by business firms during a year while the second approach measures the total income of business firms during the year. **T F**

11. Personal consumption expenditures only include expenditures for durable and nondurable goods. **T F**

12. The expenditure made by a household to have a new home built is a personal consumption expenditure. **T F**

13. In national income accounting, any increase in the inventories of business firms is included in gross private domestic investment. **T F**

14. If gross private domestic investment is greater than depreciation during a given year, the economy's production capacity has declined during that year. **T F**

15. Government purchases include spending by all units of government on the finished products of business, but exclude all direct purchases of resources such as labor. **T F**

16. The net exports of an economy equal its exports of goods and services less its imports of goods and services. **T F**

17. The income approach to GDP include compensation of employees, rents, interest income, proprietors' income, and corporate profits. **T F**

18. Indirect business taxes are the difference between gross private domestic investment and net private domestic investment. **T F**

19. Net foreign factor income is the difference between the earnings of foreign-owned resources in the United States and the earnings from U.S.-supplied resources abroad. **T F**

20. Comparison of a gross domestic product with the gross domestic product of an earlier year when the price level has risen between the two years necessitates "inflating" the GDP figure in the later year. **T F**

21. To adjust nominal gross domestic product for a given year, it is necessary to divide nominal GDP by the price index—expressed in hundredths—for that year. **T F**

22. The consumer price index (CPI) is the price index used to adjust nominal GDP to measure real GDP. **T F**

23. GDP is a precise measure of the economic well-being of society. **T F**

24. The productive services of a homemaker are included in GDP. **T F**

25. The spillover costs from pollution and other activities associated with the production of the GDP are deducted from total output. **T F**