Suppose the following table records the total output and prices for an entire economy. The base year for the following table is 2000.

<table>
<thead>
<tr>
<th>Year</th>
<th>Price of Soda</th>
<th>Quantity of Soda</th>
<th>Price of Jeans</th>
<th>Quantity of Jeans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$1.00</td>
<td>200</td>
<td>$10.00</td>
<td>50</td>
</tr>
<tr>
<td>2001</td>
<td>$1.00</td>
<td>220</td>
<td>$11.00</td>
<td>50</td>
</tr>
</tbody>
</table>

1. What is the value of nominal GDP in 2000?

2. What is the value of real GDP in 2000?

3. What is the value of nominal GDP in 2001?

4. What is the value of real GDP in 2001?

5. What is the value of the GDP deflator in 2000?

6. What is the value of the GDP deflator in 2001?

7. From 2000 to 2001, prices rose approximately what percentage?

8. Was the increase in nominal GDP from 2000 to 2001 mostly due to an increase in real output or due to an increase in prices?
9. Complete the following table:

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>4532</td>
<td>4804</td>
<td></td>
</tr>
<tr>
<td>Consumption</td>
<td></td>
<td>3320</td>
<td>3544</td>
</tr>
<tr>
<td>Investment</td>
<td>589</td>
<td>629</td>
<td>673</td>
</tr>
<tr>
<td>Government</td>
<td>861</td>
<td></td>
<td>977</td>
</tr>
<tr>
<td>Purchases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Exports</td>
<td>-45</td>
<td>-58</td>
<td>-54</td>
</tr>
</tbody>
</table>

10. What is the largest expenditure component of GDP?

11. What does it mean to say that net exports are negative?

Multiple Choice:

12. Which of the following would be excluded from 1989 GDP? The sale of
   a. a 1989 Honda made in Tennessee.
   b. a haircut.
   c. a realtor’s services.
   d. a home built in 1988 and first sold in 1989.
   e. all of the above should be counted in 1989 GDP.

13. Gross Domestic Product is the sum of the market value of the
   a. intermediate products.
   b. manufactured products.
   c. normal goods and services.
   d. inferior goods and services.
   e. final goods and services.

14. If nominal GDP in 2000 exceeds nominal GDP in 1999, then the production of output must have
   a. risen.
   b. fallen.
   c. stayed the same.
   d. risen or fallen, can’t tell given the information provided.
15. If a cobbler buys leather for $100 and thread for $50 and uses them to produce and sell $500 worth of shoes to consumers, the contribution to GDP is
   a. $50
   b. $100
   c. $500
   d. $600
   e. $650

16. GDP would include which of the following?
   a. housework.
   b. illegal drug sales.
   c. intermediate sales.
   d. consulting services.
   e. the value of taking a day off from work.

17. How is your purchase of a $40,000 BMW automobile that was entirely produced in Germany recorded in the U.S. GDP accounts?
   a. investment increases by $40,000 and net exports increases by $40,000.
   b. consumption increases by $40,000 and net exports decreases by $40,000.
   c. net exports decreases by $40,000.
   d. net exports increases by $40,000.
   e. There is no impact because this transaction does not involve domestic production.

No Critical Thinking Question for this chapter...