1. In the circular-flow diagram, when households purchase goods and services this is known as
   a. money creation.  b. consumer spending.  c. economic growth.  d. indexing the market basket.

2. Households receive income in the form of
   a. stocks, taxes, and savings.  b. savings and interest.  c. wages, dividends, interest, and rent.  d. market baskets.

3. Disposable income is income earned by households in factor markets
   a. minus taxes and government transfers.  b. plus taxes and government transfers.
   c. minus taxes plus government transfers.  d. plus taxes minus government transfers.

4. The income households have available for spending or saving is
   a. disposable income.  b. nominal GDP.  c. real GDP.  d. a microeconomic variable.

5. Which of the following transactions does NOT represent an addition to U.S. GDP?
   b. A U.S. firm manufactures a bicycle sold to a Canadian consumer.
   c. A U.S. firm hires construction workers to expand its manufacturing facility.
   d. A German citizen buys stock in a U.S. company.

6. Which one of the following statements is true?
   a. GDP overstates the true level of production because goods that are sold as inputs to other firms are counted twice.
   b. Inventories of finished goods are not counted as investment because they do not allow for future consumption.
   c. Changes in GDP tell us about economic growth, but they do not reveal anything about the pattern of the business cycle.
   d. Since GDP is equal to the total value of final goods and services produced in the economy in a given time period, it must also equal the flow of money received by firms from their sales in the product market during the same time period.

7. In the simplified circular-flow model of the macroeconomy, the two sectors are
   a. labor unions and management.  b. households and firms.  c. inflation and unemployment.  d. capital and labor.

8. GDP is equal to
   a. the sum of total factor income earned by households from firms.
   b. the sum of all financial transactions in the economy.
   c. the aggregate sum of profits and losses.
   d. the value of what has been consumed.

9. GDP is the measure of
   a. the value of productive capital in the economy.
   b. total spending on domestically produced final goods and services.
   c. total income received by households minus household savings.
   d. all transactions between U.S. firms and foreign purchasers.

10. Which of the following transactions would add to the value of U.S. GDP?
    a. A college student buys a used car.
    b. A college student sells her used textbooks back to the bookstore.
    c. A grocery store purchases new freezers made in the United States.
11. GDP is a measure of both
   a. inflation and savings.  b. interest rates and consumption.
   c. income and output.  d. investment and unemployment.

12. The biggest portion of U.S. GDP is value added by
   a. households.  b. businesses.
   c. government.  d. net exports.

13. National income accounts were created in the United States during the

14. GDP measured in current-year prices is
   a. potential GDP.  b. real GDP.
   c. per capita GDP.  d. nominal GDP.

15. The rate of growth of real GDP
   a. depends on which year is used as the base year.
   b. depends how quickly prices are rising.
   c. is always equal to the rate of growth of nominal GDP.
   d. is always more than the rate of growth of nominal GDP.

16. Real GDP per capita
   a. is an excellent measure of a country's standard of living.
   b. is always equal to nominal GDP per capita.
   c. is not a sufficient measure of human welfare in a country.
   d. is all that economists care about.

17. The "inflation rate" that is reported in the news refers to
   a. the difference between the consumer price index in any given year and its value in the base year.
   b. the annual percentage change in the consumer price index.
   c. the annual percentage change in the producer price index.
   d. the annual percentage change in the price index constructed using a changing market basket of goods.

18. Which of the following price indexes tends to fluctuate most over time?
   a. the consumer price index
   b. the GDP deflator
   c. the producer price index.
   d. All three indexes have about the same level of fluctuation.

19. Price indexes measure
   a. changes in the unemployment rate.  b. fluctuations in aggregate output.
   c. fluctuations in the aggregate price level.  d. changes in consumption patterns.

20. Which of the following statements is true?
   a. The producer price index responds more slowly to inflationary pressure than does the consumer price index.
   b. The United States is the only country that calculates a consumer price index.
   c. In the United States, income tax brackets are adjusted according to changes in the consumer price index.
   d. The market basket of items used to calculate the consumer price index includes the items most commonly purchased by households, but it excludes the cost of housing.