1. A professional gambler moves from a state where gambling is illegal to a state where gambling is legal.  Most of his income was, and continues to be, from gambling.  His move (Points :1)
       necessarily raises GDP.
       necessarily decreases GDP.
       doesn't change GDP because gambling is never included in GDP.
       doesn't change GDP because in either case his income is included.

**2.** ***Table 23-5***The table below contains data for the country of Batterland, which produces only waffles and pancakes.  The base year is 2006.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Year | PriceofWaffles | QuantityofWaffles | PriceofPancakes | QuantityofPancakes |
| 2005 | $2 | 100 | $1 | 100 |
| 2006 | $2 | 120 | $2 | 150 |
| 2007 | $3 | 150 | $3 | 200 |
| 2008 | $4 | 180 | $3 | 220 |
|  |  |  |  |  |

**Refer to Table 23-5.**  In 2008, Batterland’s GDP deflator was (Points :1)
       58.0.
       100.
       148.1.
       172.5.

**3.** The CPI is more commonly used as a gauge of inflation than the GDP deflator is because (Points :1)
       the CPI is easier to measure.
       the CPI is calculated more often than the GDP deflator is.
       the CPI better reflects the goods and services bought by consumers.
       the GDP deflator cannot be used to gauge inflation.

**4.** ***Table 24-4***
The table below pertains to Wrexington, an economy in which the typical consumer’s basket consists of 20 pounds of meat and 10 toys.

|  |  |  |
| --- | --- | --- |
| Year | Price ofMeat | Price of aToy |
| 2004 | $3 per pound | $2 |
| 2005 | $1 per pound | $7 |
| 2006 | $4 per pound | $5 |
|  |  |  |

**Refer to Table 24-4.**  If the base year is 2004, then the CPI in 2005 was (Points :1)
       88.9.
       90.
       100.
       112.5.

**5.** By far the largest category of goods and services in the CPI basket is (Points :1)
       housing.
       transportation.
       education & communication.
       food & beverages.

**6.** In the basket of goods that is used to compute the consumer price index, the three largest categories of consumer spending are (Points :1)
       housing, transportation, and recreation.
       housing, transportation, and food & beverages.
       housing, food & beverages, and education & communication.
       housing, medical care, and education & communication.

**7.** If the cost of transportation increases by 10 percent, then, other things the same, the CPI is likely to increase by about (Points :1)
       0.6 percent.
       1.7 percent.
       3.3 percent.
       10 percent.

**8.** The substitution bias in the consumer price index refers to the (Points :1)
       substitution by consumers toward new goods and away from old goods.
       substitution by consumers toward a smaller number of high-quality goods and away from a larger number of low-quality goods.
       substitution by consumers toward goods that have become relatively less expensive and away from goods that have become relatively more expensive.
       substitution of new prices for old prices in the CPI basket of goods and services from one year to the next.

**9.** By not taking into account the possibility of consumer substitution, the CPI (Points :1)
       understates the cost of living.
       overstates the cost of living.
       may overstate or understate the cost of living, depending on how quickly prices rise.
       may overstate or understate the cost of living, regardless of how quickly prices rise.

**10.** The introduction of a new good (Points :1)
       increases the cost of maintaining the same level of economic well-being.
       decreases the cost of maintaining the same level of economic well-being.
       has no impact on the cost of maintaining the same level of economic well-being.
       may increase or decrease the cost of maintaining the same level of economic well-being, depending on how expensive the new good is.

**11.** Consternation Corporation has an agreement with its workers to index completely the wage of its employees using the CPI.  Consternation Corporation currently pays its production line workers $8.00 an hour and is scheduled to index their wages today.  If the CPI is currently 160 and was 128 a year ago, the firm should increase the hourly wages of its workers by (Points :1)
       $0.25.
       $1.60.
       $2.00.
       $2.56.

**12.** Real Foods produced 400,000 cans of diced tomatoes in 2007 and 460,000 cans of diced tomatoes in 2008. They employed the same number of labor hours each year.  Relative to their productivity in 2007, their productivity in 2008 was (Points :1)
       6 percent lower.
       unchanged.
       6 percent higher.
       15 percent higher.

**13.** Which of the following would be considered physical capital? (Points :1)
       the refrigerators at Uncle Bob’s restaurant
       rivers on which goods are transported
       the skills and knowledge of a lawyer
       All of the above are correct.

**14.** Given that a country’s real output has increased, in which of the following cases can we be sure that its productivity also has increased? (Points :1)
       The total number of hours worked rose.
       The total number of hours worked stayed the same.
       The total number of hours worked fell.
       Both b and c are correct.

**15.** Using the production function and notation in the text, *H*/*L* measures (Points :1)
       natural resources per worker.
       human capital per worker.
       output per worker.
       physical capital per worker.

**16.** If the number of workers in an economy doubled, all other inputs stayed the same, and there were constant returns to scale, productivity would (Points :1)
       fall to less than one-half of its former value.
       fall, but it would still be greater than one-half of its former value.
       stay the same.
       rise but less than double.

**17.** **Scenario 25-1**.   An economy’s production form takes the form *Y* = *AF*(*L*, *K*, *H*, *N*).

**Refer to Scenario 25-1**. If the production function has the constant-returns-to-scale property, then it could be rewritten as (Points :1)
       *Y/L = AF(*1*, K/L, H/L, N/L)*
       *Y/L = AF(L,* 1*, H/L, N/L)*
       *Y/L = AF(L, K/L,* 1*, N/L)*
       *Y/L = AF(L, K/L, H/L,* 1*)*

**18.** **Figure 25-1.**  On the horizontal axis, *K*/*L* represents capital (*K*) per worker (*L*).  On the vertical axis, *Y*/*L* represents output (*Y*) per worker (*L*).



**Refer to Figure 25-1.**  Choose a point anywhere on the curve and call it point *A*.  If the economy is at point A in 2007, then it will definitely remain at point *A* in 2008 if, between 2007 and 2008, (Points :1)
       the quantity of physical capital remains constant; the number of workers doubles; and human capital, natural resources, and technology all double as well.
       the quantity of physical capital doubles; human capital, natural resources, and technology all double as well; and the number of workers remains constant.
       the quantity of physical capital doubles; the number of workers doubles; and human capital, natural resources, and technology all double as well.
       the quantity of physical capital doubles; the number of workers doubles; and human capital, natural resources, and technology remain constant.

**19.** Other things the same, if a country increased its saving rate, in 40 years or so it would likely have (Points :1)
       higher productivity, and a higher growth rate of real GDP.
       higher productivity, but not a higher growth rate of real GDP.
       the same productivity and growth of real GDP it began with.
       None of the above is correct.

**20.** Over extended periods of time, population growth (Points :1)
       has no effect on the standard of living.
       has uncertain effects on the standard of living.
       clearly raises the standard of living.
       clearly lowers the standard of living.

