Name:\_\_\_\_\_\_\_\_\_\_\_\_\_

Following 10 multiple choice questions are worth 1 mark each. Circle the best answer. [10 marks]

1. Cars produced in Canada by a US-owned company, General Motors, are counted in Canadian GDP.
2. True b) False
3. GDP stayed constant in 2011. In the same year, there was increase in illegal drug dealing.
4. GDP understates living standards b) GDP overstates living standards
5. GDP decreased by 1.0% in 2013. In the same year, GDP per capita increased by 1.0%.
6. GDP understates living standards b) GDP overstates living standards
7. Which is included in GDP?
8. Student is paid $10 for babysitting b) Employee receives his employment benefits c) Student receives his weekly allowance d) Student makes $50 from school trades fair
9. Which is NOT one of four categories of users of the final goods and services that make up the GDP? A) households b) firms c) foreign purchasers of domestic product f) non-profit organizers
10. Which of the following is a durable good?
11. Laptop b) Ice Americano c) Lipstick d) Gasoline
12. GDP expressed in current dollars is:
13. Real GDP b) Nominal GDP c) GDP per capita d) Real GDP per capita
14. The total income acquired by Canadians both within Canada and elsewise:
15. GDP b) GNP c) NDI d) PI
16. Which is the largest component of GDP?

a) Personal expenditure b) Private-sector investment c) Government expenditure

d) Net Exports

1. Purchase of a new house is part of:
2. Personal expenditure b) Private-sector Investment c) Government expenditure

d) Net Exports

Long Answer Questions

Show all your work for following three questions. If you do not show your work, you will not receive any marks. You will receive partial marks even if the answer is incorrect based on shown work. [30 marks]

1. Jeans are sold from jean factory to wholesaler for $7.50. The jeans are then sold to a clothing warehouse for $15.00. The warehouse sells jeans to local boutiques for $20.00. Finally, the boutiques sell jeans to the final consumer for $25.00. Explain how this product appears in GDP, using the concept of value-added. In each stage, indicate: revenue, value-added, and business that adds value. [4 marks]
2. Suppose that an economy produces 2,000,000 jeans valued at $25 each. Of these, 750,000 are sold to consumers, 500,000 are sold to businesses, 120,000 are sold to government, and 500,000 are sold abroad. No jeans are imported.
3. Find GDP of the economy using production method [2 mark]
4. Find GDP of the economy using expenditure method [4 marks]

|  |  |
| --- | --- |
|  | $ in billions |
| Corporate profits  Exports  Wages and salaries  Net investment  Government purchases  Government transfer payments  Net investment income to the rest of the world  Indirect taxes  Personal consumption  Interest income  Imports  Depreciation  Proprietors’ incomes and rents  Personal taxes  Earnings not paid out to persons  Statistical discrepancy | 60  30  560  130  100  40  (15)  30  510  45  20  60  50  50  35  ? |

**Canada’s National Accounts (2011)**

Population = 35 million

1. Looking at above table,
2. Find income-based and expenditure-based estimates of Canada’s (2011) GDP. [10 marks]
3. Outline how the statistical discrepancy between the two estimates in part (a) can be used to find single GDP value. [2 marks]
4. How much is Canada’s capital stock expanding or contracting in 2011? [2 marks]
5. Find GDP per capita, GNP and DI. [6 marks]

Bonus Question: Starbucks cannot decide whether to expand or not; its marketing department is encouraging the company to, while its economics department is discouraging them. Explain why they are at disagreements.