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Question: 1

The difference between the GDP and the GNP is that:

A. GDP adds in the additional factor of foreign investment earnings after subtracting foreign investments in the US economy.
B. GNP adds in the additional factor of what Americans earned from foreign investment after subtracting what foreign residents earn from US investments.
C. GDP is the modern term for what used to be called GNP.
D. gross national product refers to the value of goods and services produced only in the continental US, whereas gross domestic product counts the foreign/domestic investment earnings factor.

Answer: B

Explanation:
Clear definitions of GDP and GNP would be helpful in answering this question. GNP can be confusing because it means gross national product and this could lead some people to think it was limited to the continental US In fact, the opposite is true. GNP encompasses the full gross domestic product but adds in an extra factor, which is what the US earns from foreign investments after subtracting what foreign investors earn from US investments.

Question: 2

Monetarist economists differ from Keynesians in that:

A. Keynesian economists place greater emphasis on strictly monetary controls than on government expenditures.
B. Keynesian economists believe that government spending has as great or a greater role in managing the economy than does the stricter monetary policy of the monetarists.
C. monetarists believe that price controls and other government interventions are the best way of managing the economy.
D. monetarists do not put as much emphasis on the money supply as do the Keynesians in the task of managing the economy.

Answer: B

Explanation:
The Keynesians believe that government spending can benefit the economy during times of unemployment and other crises. The policies of the "monetarists" place more emphasis on money supply manipulation through such tools as the discount rate and the federal funds rate. Monetarists do not believe that creating government jobs and making other government expenditures are the best way to stimulate the economy. Answer choice "d" has it just the opposite of the way it really is.

Question: 3

The economic period of the 1970s was marked by:

A. marked successes for the adherents of Keynesian economics.
B. a growth period of low inflation, low interest rates, moderate government spending, and near full employment.
C. a recessionary period of high inflation, high interest rates, increased government spending, and increasing unemployment.
D. all of the above.

Answer: C

Explanation:
You should have ruled out "d" right way because "b" and "c" are directly contradictory. Then the question becomes one of determining whether or not the 1970s were a period of marked successes for the Keynesians. The US had increased government spending because of the Vietnam War and the Great Society expenditures. Government spending infused cash into the economy so that interest rates on savings rose to unprecedented highs. Unemployment increased as the US entered a long recessionary period.

Question: 4

The definition that best describes the relationship between savings and disposable income is:

A. savings are defined as income after taxes; disposable income refers to income left over after expenditures have been subtracted.
B. savings are defined as disposable income after consumption expenses have been subtracted; disposable income refers to income the individual can control—meaning after- tax income.
C. that there is no difference between savings and disposable income.
D. disposable income = savings - taxes.

Answer: B

Explanation:
The reason for the difference is that a person or business entity has control over disposable income. Disposable income is the amount left over after taxes (which a person cannot much control). Disposable income may be applied to savings or it may be entirely spent on necessary and unnecessary expenses. "C" and "d" are wrong because the formula supplied is incorrect and because there is a difference between the N'O terms. Keeping the idea of "control" in mind should help you to differentiate these terms and lead you to the correct answer choice.

Question: 5

Define what is meant by the "velocity ' of money.

A. The velocity of money is expressed by the equation: Velocity = T1 (transaction) divided by (GNP - GDP).
B. The velocity of money refers to the speed at which the Federal Reserve can increase the money supply through its monetary policies.
C. The velocity of money refers to the median measure of time a dollar takes to move from one transaction to the next.
D. The velocity of money measures the rapidity with which money is spent, represented as the median number of times a dollar is spent in a specific period of time.

Answer: D

Explanation:
The velocity of money is the frequency and rapidity with which people spend money. The velocity of money is often expressed as the median number of times a dollar is spent in a specific period of time. The velocity of money is calculated as V = (P x Q)/M, in which P is the price level, Q is nominal GDP, and M is money supply. A sharp increase in the velocity of money is thought to be a cause of inflation.