1. A trade deficit occurs when ______________ exceed ______________.

2. If the base year is 2010, then real and nominal GDP in 2010 will be equal
   a. True
   b. False

3. What do we add to GDP to reach GNP?
   a. Net Income earned abroad by U.S. households
   b. Personal Income
   c. Depreciation
   d. Net Exports

4. Which of the following is not a component of GDP?
   a. Consumption
   b. Investments
   c. Producer Price Index
   d. Government purchases

5. State whether the following actions will increase or decrease GDP or will not make a change to GDP.
   a. An individual sells his/her house through on his/her own. ______________
   b. An unemployed worker gets a job. ______________
6. Use data from the following table to answer the following questions

<table>
<thead>
<tr>
<th>Quantities Produced</th>
<th>Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>CDs</td>
<td>Tennis Rackets</td>
</tr>
<tr>
<td>2011</td>
<td>100</td>
</tr>
<tr>
<td>2012</td>
<td>120</td>
</tr>
</tbody>
</table>

a. Calculate real GDP for 2012 using prices from 2011. _$__________

b. By what percent did real GDP grow from 2011 to 2012? ________%

c. Calculate real GDP for 2011 using prices from 2012. _$__________

d. By what percent did real GDP grow from 2011 to 2012? ________%

Answers:
1. Imports; exports
2. a. by definition
4. c. GDP = C + I + G + (X – M)
5. a. no change The house gets counted once, only, when it is new
   b. increase The worker goes from being unemployed, producing no output to a positive output.
6. To start, it would be good to calculate Nominal GDP for 2011 and 2012, which are $24,000 and $27,840, respectively.
   a. $25,500 (120 * $20) + (210 * $110)
   b. 6.25% (25,500 – 24,000)/24,000
   c. $26,200 (100 * $22) + (200 * $120)
   d. 6.259542% or 6.26% (27,840 – 26,200)/26,200

Where:  
C = Consumption Expenditure  
I = Investment Expenditure  
G = Government Expenditure  
X = Exports  
M = Imports  
(X – M) = Net Exports