

Econ 102

Exam 2 – Lecture 1

There are 40 questions to this exam, each worth 2.5 points for a total of 100. You have 50 minutes to complete the 40. Good luck!

1. Home Depot sells new and used doors to contractors who build new homes. Home Depot also sells new and used doors to homeowners. Which of the following would be counted in GDP?

- a. The sale of a used door to a homeowner
- b. The sale of a new door to homeowner
- c. The sale of a used door to TapKon construction for installation into a new home
- d. The sale of a new door to TapKon construction for installation into a new home

2. Investment spending includes spending on

- a. stocks
- b. nondurable goods
- c. changes in business inventories
- d. transfer payments

3. Total production in the economy is measured as the

- a. total number of goods and services produced in the economy
- b. dollar value of all final goods and services produced in the economy
- c. total number of goods produced in the economy
- d. total number of services produced in the economy

4. To make the calculation of real GDP more accurate, in 1996 the BEA switched to using

- a. base year prices.
- b. current prices.
- c. chain-weighted prices.
- d. market prices.

5. How are intermediate goods treated in the calculation of GDP?

- a. Their value is not counted separately, but included as part of the value of the final good of which they are an input
- b. Their value is counted separately, and their value is also included as part of the value of the final good of which they are an input
- c. They are included in the year that they are produced
- d. They are included only if they are imported

6. In periods when prices are falling on average,

- a. real GDP will grow slower than nominal GDP.
- b. real GDP will grow faster than nominal GDP.
- c. real GDP will grow as fast as nominal GDP.
- d. one cannot calculate real GDP.

7. Which of the following causes the unemployment rate to understate the true extent of joblessness?

- a. Many full time workers really want to be part time workers
- b. Persons who collect unemployment benefits report themselves to be searching for a job
- c. Discouraged workers are not counted as unemployed
- d. A drug dealer reports herself as unemployed
- e. Discouraged workers are counted as unemployed.

8. If the number employed is 190 million, the working age population is 230 million, and the number unemployed is 10 million, then the unemployment rate is

- a. 5%
- b. 10%
- c. 50%
- d. 5.2%
- e. 8%

9. The short term unemployment arising from the process of matching workers with jobs is called

- a. frictional unemployment
- b. structural unemployment
- c. cyclical unemployment.
- d. seasonal unemployment
- e. unnatural unemployment

10. The labor force is the sum of

- a. employed workers and discouraged workers.
- b. employed workers and unemployed workers.
- c. employed workers and individuals not looking for work.
- d. employed workers and the working age population.
- e. unemployed workers and the working age population.

11. Discouraged workers are classified by the BLS as

- a. part of the labor force.
- b. considered out of the labor force.**
- c. considered unemployed.
- d. considered employed.
- e. part time employees.

12. If your nominal wage rises slower than the price level then we can say your real wage has _____ and the purchasing power of a dollar has _____.

- a. fallen; fallen**
- b. fallen; risen
- c. risen; risen
- d. risen; fallen

13. A government budget deficit will shift the _____ curve for loanable funds to the _____ and the equilibrium real interest rate will _____.

- a. supply; right; fall
- b. supply; left; rise**
- c. demand; right; rise
- d. demand; left; fall

14. The only way the standard of living of the average person in a country can increase is by increasing _____ faster than _____.

- a. production; population**
- b. income; population
- c. population; production
- d. population; income

15. If an economy is growing at a rate of 2.5% per year, how long will it take the economy to double in size?

- a. 60 years
- b. 43 years
- c. 36 years
- d. 28 years**

16. Potential GDP in the U.S.

- a. does not change over time.
- b. grows as the economy grows.**
- c. changes over the business cycle.
- d. declines over time.

17. If taxes are less than transfers plus government spending, then

- a. there are positive saving
- b. there is a balanced budget
- c. there is a budget surplus
- d. there is dissaving.

18. Workers in _____ countries have _____ to work with than do workers in low income countries.

- a. high income; less physical capital
- b. high income; more physical capital
- c. high income; more labor
- d. low income; less labor.

19. Consider the following information for an economy in 2006 (figures in \$ billions).

Self-employment Income	800
Personal Consumption	7,000
Indirect business taxes	200
Gross private investment	2,000
Government consumption and gross investment	2,000
Net exports	-500
Indirect business taxes	400
Depreciation	1,500

Using the data above, gross domestic product is equal to

- a. \$11,300.
- b. \$10,500.
- c. \$ 9,400.
- d. \$ 9,000.

20. Suppose that nominal per capita GDP was \$40,000 in 2000 and \$50,400 in 2005. If the GDP deflator was 100 in 2000 and 120 in 2005, indicate the 2005 per capita real GDP measured in 2000 dollars.

- a. \$38,000
- b. \$40,000
- c. \$42,000
- d. \$45,000

21. Daniel is offered a job in three cities in the world. He is offered a job in Buenos Aires as a tango dancer, where the CPI is 60 and the salary is \$24,000. In Cairo, where the CPI is 40, he is offered a job as a Pyramid guide with \$12,000. Finally in Barcelona, he is offered a job as a bullfighter with \$36,000. The CPI is 100 in Barcelona. If he only cares about the purchasing power in the region, which are Daniel's best choice and least choice among the three cities? (Assume for all the cities that all other relevant variables are equal, including the same basket of goods and same base year)

- a. Buenos Aires, Barcelona
- b. Sydney, Cairo
- c. Cairo, Barcelona
- d. Buenos Aires, Cairo

22. In the country of "I-don't-know", the CPI is calculated using a market basket consisting of 5 apples, 4 loaves of bread, 3 robes and 2 gallons of gasoline. The base year is 1999. The per-unit prices of these goods have been as follows:

Year	Apples	Bread	Robes	Gasoline
1999	\$1.00	\$2.00	\$10.00	\$1.00
2000	\$1.00	\$1.50	\$9.00	\$1.50
2001	\$2.00	\$2.00	\$11.00	\$2.00
2002	\$3.00	\$3.00	\$15.00	\$2.50

What was the inflation rate approximately, as measured by the CPI, between 1999 and 2000?

- a. -9 percent
- b. -3 percent
- c. 3 percent
- d. 5 percent

23. Suppose that you are given the following information about a closed economy:

Investment (I)	\$500
GDP (Y)	\$2000
Consumption (C)	\$1000
Taxes (T)	\$500
Government purchases (G)	\$500
Transfer payments (TR)	\$100

What are the values of private and public savings?

- a. Private savings = \$500, Public savings = \$500
- b. Private savings = \$250, Public savings = \$250
- c. Private savings = \$250, Public savings = - \$250
- d. Private savings = \$600, Public savings = - \$100

24. Suppose that you are given the following information:

Real GDP 2000	Real GDP 2001	Real GDP 2002	Real GDP 2003
100	150	200	250

What is the average annual growth rate of real GDP between the years of 2000 and 2003?

- a. 10%
- b. 25%
- c. 36%
- d. 50%

Year	Real GDP	Population
1999	\$10,000	8,000
2000	\$12,000	8,000
2001	\$15,000	10,000
2002	\$20,000	15,000

25. Using the above table, what was the percentage change in real GDP between 2000 and 2002?

- a. 66.67%
- b. 33.33%
- c. 40%
- d. 58.3%

26. Again using the above table, what was the average annual growth rate between 1999 and 2001?

- a. 50%
- b. 28%
- c. 22.5%
- d. 45%

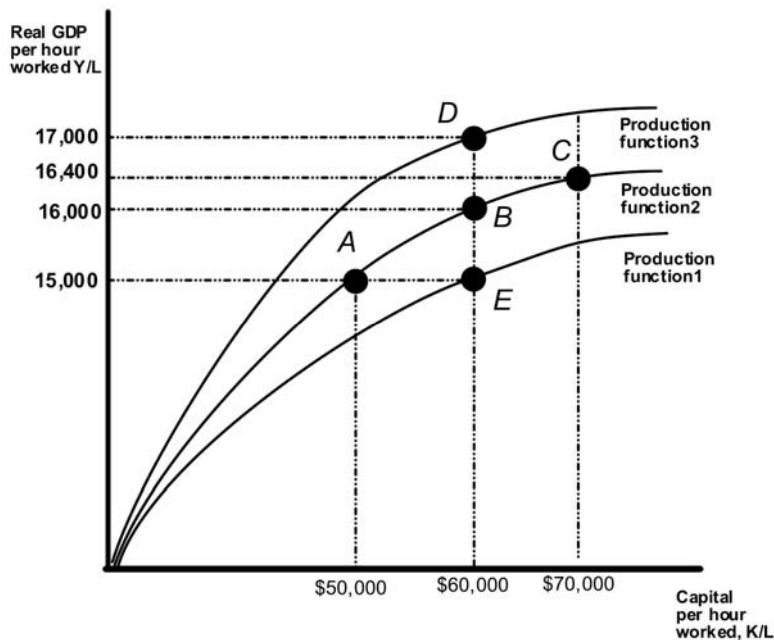
27. A \$100 billion increase in planned investment spending results in a \$500 billion increase in equilibrium GDP in short run. What's the value of MPC (marginal propensity to consume)?

- a. 5
- b. 1/5
- c. 4/5
- d. 5/4

Real GDP (Y)	Consumption
\$1000	\$800
\$1500	\$1000

28. Using the table above. Suppose there is no income tax. What's the value of MPS (marginal propensity to save)?

- a. 0.6
- b. 0.4
- c. 0.8
- d. 0.2



29. The movement from A to B to C illustrates

- a. an improvement in technology
- b. a decline in capital per worker
- c. diminishing returns to capital
- d. diminishing returns to labor

30. If property rights are not enforced in a country,

- a. the market system will still work smoothly
- b. entrepreneurs are unlikely to risk their own funds investing in such an economy
- c. that country's growth rate will not be affected
- d. that country will grow more rapidly because of the reduction of law suits

31. In the long run, a country will experience an increasing standard of living only if it experiences

- a. a high rate of consumption
- b. continuous technological change
- c. a high rate of labor force growth
- d. a slow rate of population growth

32. The per-worker production function shows the relationship between _____ per hour worked and _____ per hour worked, holding _____ constant.

- a. labor; real GDP; technology
- b. capital; real GDP; technology**
- c. labor; capital; real GDP
- d. capital; labor; real GDP.

33. Which of the following is NOT a reason why the Industrial Revolution occurred when and where it did?

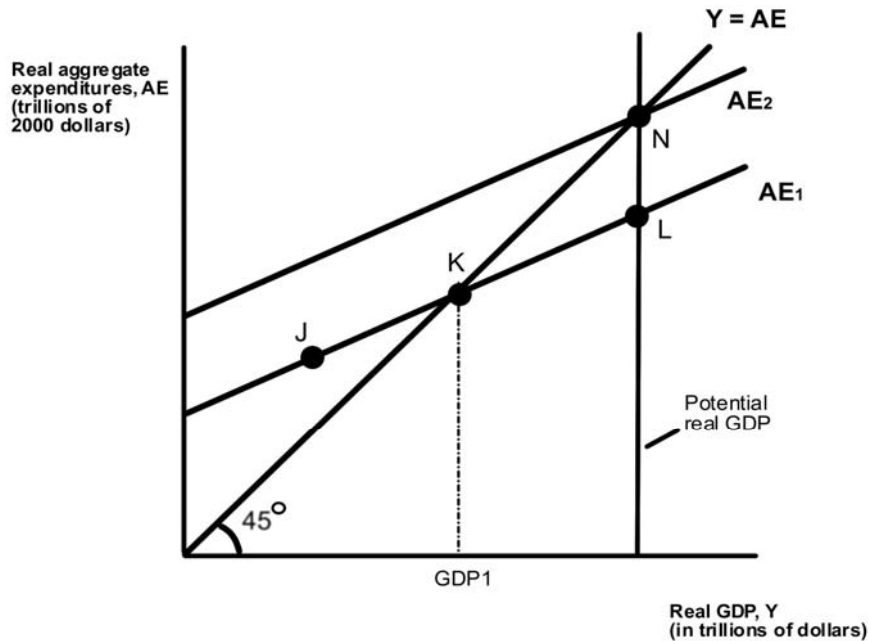
- a. The British government was committed to upholding private property rights.
- b. The British government was able to eliminate arbitrary increases in taxes.
- c. The British government was able to more easily seize wealth.**
- d. Institutional changes by the British government helped in protecting wealth.

34. An increase in _____ shifts _____ the production function, and makes it possible to produce a higher level of GDP with _____ capital per hour worked.

- a. technology; down; the same amount of
- b. technology; up; the same amount of**
- c. consumption; up; a lesser amount
- d. labor productivity; down; the same amount of

35. The ratio of the increase in _____ to the increase in _____ is called the multiplier.

- a. equilibrium nominal GDP; autonomous expenditure
- b. equilibrium real GDP; autonomous expenditure**
- c. autonomous expenditure; equilibrium real GDP
- d. induced expenditure; equilibrium real GDP



36. Potential GDP equals \$100 billion. The economy is currently producing GDP1 which is equal to \$90 billion. If the MPC is .8, then how much must spending change for the economy to move to potential GDP?

- a. -\$2 billion
- b. \$2 billion**
- c. \$18 billion
- d. -\$18 billion

37. If the economy is currently in equilibrium at a level of GDP that is below potential GDP, which of the following would move the economy back to potential GDP?

- a. an increase in wealth**
- b. an increase in interest rates
- c. a decrease in business confidence
- d. an increase in the value of the dollar relative to other currencies.

38. Which of the following leads to a decrease in real GDP?

- a. an increase in government spending
- b. an increase in the inflation rate in other countries, relative to the inflation in the U.S.
- c. an increase in interest rates**
- d. households have increasingly optimistic expectations about future income.

39. Which of the following best represents Say's Law

- a. Savings must always equal investment in a closed economy
- b. Higher prices lead to higher output
- c. Aggregate expenditure determines supply
- d. Supply creates its own demand

40. If aggregate planned expenditures are less than total production,

- a. actual inventories will equal planned inventories.
- b. firms will experience unplanned increase in inventories.
- c. GDP will increase.
- d. the economy is in equilibrium.