

Exam 1 - Economics 103 Spring 2018 (25 points total)

Name _____

MULTIPLE CHOICE (23 points total) (1/2 point each) . Choose the one alternative that best completes the statement or answers the question.

- 1) Personal consumption expenditures include all of the following EXCEPT spending on 1) _____
 - A) new housing.
 - B) consumer durable goods.
 - C) consumer services.
 - D) consumer nondurable goods.

- 2) A recession causes a decrease in the demand for housing, resulting in substantial layoffs in the construction industry. The people laid off are considered 2) _____
 - A) structurally unemployment.
 - B) frictionally unemployment.
 - C) cyclically unemployment.
 - D) seasonally unemployment.

- 3) Cyclical unemployment 3) _____
 - A) may increase or decrease during an expansion.
 - B) occurs when technology improvements change job requirements.
 - C) is due mainly to job leavers.
 - D) fluctuates over the business cycle.

- 4) Suppose that over a period of years the country of Quasiland switched from being an agriculturally-based economy to a technologically-based economy. As a result, many people lost jobs because they lacked the correct skills. As they search for new jobs, these people are part of 4) _____
 - A) cyclical unemployment.
 - B) discouraged workers.
 - C) structural unemployment.
 - D) frictional unemployment.

- 5) _____ is the knowledge and skill that people have obtained from education and on-the-job training. 5) _____
 - A) Labor productivity
 - B) Capital
 - C) Human capital
 - D) Technology

- 6) The relationship between education and economic growth can best be summarized by saying that 6) _____
 - A) education has benefits beyond those who receive the education, which encourages economic growth.
 - B) educational expenditures tend to be inflationary, which discourages economic growth.
 - C) educated people are less apt to consume goods that deplete economic resources, which encourages economic growth.
 - D) educational expenditures tend to divert funds from productive investments, which discourages economic growth.

- 7) The cost of inflation to society includes 7) _____
 - A) higher interest rates paid by the government on its debt.
 - B) higher interest rates paid by borrowers.
 - C) unpredictable changes in the value of money.
 - D) the lost spending when people do not have enough money.

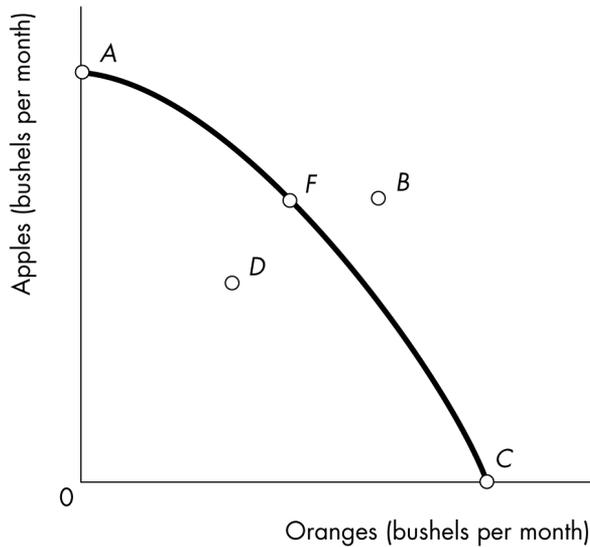
- 8) The calculation of the final goods and services sold in an economy would NOT include 8) _____
 - A) General Motors' purchases of tires for new automobiles.
 - B) the purchase of a lawnmower by a household.
 - C) Ford Motor Company's purchase of a new industrial robot to be used to produce cars.
 - D) the purchase of a service by a household.

- 9) If the CPI at the end of last year was 100 and the CPI at the end of this year was 115, the inflation rate was _____
 A) 115 percent. B) 1.5 percent. C) 100 percent. D) 15 percent.
- 10) Which of the following best fits the definition of unemployed? _____
 A) not working and not looking for work B) not working but looking for a job
 C) working less than a full work week D) retired and not working
- 11) Suppose the Consumer Price Index is 143.6. What does that number mean? _____
 A) Prices rose 143.6 percent over the reference base period, on average.
 B) On average, goods cost \$243.60.
 C) On average, goods cost \$143.60.
 D) Prices rose 43.6 percent over the reference base period, on average.
- 12) Gross domestic product _____
 A) measures the value of the aggregate production of goods and services in a country during a given time period.
 B) is generally less than federal expenditure in any time period.
 C) measures the value of labor payments generated in an economy in a given time period.
 D) includes all the goods and none of the services produced in an economy in a given time period.
- 13) An example of "investment" in computing real GDP using the expenditure approach is the purchase of _____
 A) a 100 year old house by a married couple.
 B) 100 shares of IBM stock.
 C) computer chips by Dell to put in their personal computers.
 D) a new set of tools by an auto mechanic, for use in repairing cars.
- 14) The aggregate production function shows how _____ varies with _____. _____
 A) real GDP; labor B) leisure time; labor
 C) labor; leisure time D) labor; capital
- 15) Economic growth tends to be higher in a country that _____
 A) has an undeveloped system of property rights.
 B) has an economy open to international trade.
 C) has a low savings rate.
 D) does not grant patents to inventors.
- 16) An increase in the real interest rate _____ the quantity of loanable funds supplied and _____ the quantity of loanable funds demanded. _____
 A) increases; increases B) decreases; increases
 C) increases; decreases D) decreases; decreases
- 17) An unemployment rate of zero percent cannot be expected because _____
 A) there are some people who do not want to work.
 B) there will always be discouraged workers.
 C) cyclical unemployment will always exist.
 D) some portion of the labor force will always be between jobs.

- 18) In any year, real GDP 18) _____
 A) might be greater or less than potential GDP.
 B) will always be greater than potential GDP because of the tendency of nations to incur inflation.
 C) always equals potential GDP.
 D) must always be less than potential GDP.
- 19) The decreasing slope of a production function reflects 19) _____
 A) decreasing costs. B) diminishing returns.
 C) rising unemployment. D) increasing aggregate demand.
- 20) Net investment equals 20) _____
 A) gross investment minus depreciation. B) capital stock minus depreciation.
 C) gross investment/depreciation. D) the total quantity of plant and equipment.
- 21) Economic growth is measured by 21) _____
 A) changes in the employment rate. B) changes in nominal GDP.
 C) changes in real GDP. D) All of the above.
- 22) Because pollution reduces economic welfare, on this count real GDP as measured 22) _____
 A) overstates economic welfare.
 B) increases to take into account the expenditures that will be made in the future to clean up the pollution.
 C) decreases as pollution increases.
 D) understates economic welfare.
- 23) The real wage rate equals 23) _____
 A) $(\text{money wage})/(\text{number of workers})$. B) $(\text{money wage rate}) \times (\text{price level})$.
 C) $(\text{price level})/(\text{money wage rate})$. D) $(\text{money wage rate})/(\text{price level})$.
- 24) Frictional unemployment is 24) _____
 A) unemployment associated with declining industries.
 B) unemployment associated with the changing of jobs in a changing economy.
 C) unemployment associated with business cycle recessions.
 D) long-term unemployment.
- 25) The *New York Times* reported in november 2008 that 240,000 additional people lost their jobs which increased the unemployment rate to 6.5 percent. In addition, it was noted that a large number of college graduates were "taking jobs that do not require a college degree." It was also expected that "teens will be thrown out of the labor market....causing youths to miss experience" that could help them prepare for higher-skilled jobs. 25) _____
- The article reflects the idea that unemployment is a problem because it results in
 A) a loss of human capital. B) a loss of income.
 C) fewer discouraged workers. D) a decrease in the labor force.
- 26) Suppose the working age population in Tiny Town is 100 people. If 25 of these people are NOT in the labor force, the _____ equals _____. 26) _____
 A) labor force; $25/100 \times 100$ B) unemployment rate; $25/75 \times 100$
 C) labor force; 75 D) unemployment rate; $25/100 \times 100$

- 27) An economy is at full employment when _____. 27) _____
 A) there is no frictional unemployment
 B) the unemployment rate equals the natural unemployment rate
 C) there is no structural unemployment
 D) the unemployment rate is zero
- 28) An increase in education and training 28) _____
 A) increases aggregate hours.
 B) increases labor productivity.
 C) increases the employment-to-population ratio.
 D) decreases real GDP growth.
- 29) The term "capital," as used in macroeconomics, refers to 29) _____
 A) investment.
 B) the sum of investment and government purchases of goods.
 C) the plant, equipment, buildings, and inventories of raw materials and semi-finished goods.
 D) financial wealth.
- 30) The word "final" in the definition of GDP refers to 30) _____
 A) not counting intermediate goods or services.
 B) the time period when production took place.
 C) counting the intermediate goods and services used to produce GDP.
 D) valuing production at market prices.
- 31) In January 2009, you can put your savings in a Bank of America account and be paid 2 percent per year. During 2009, suppose the inflation rate is 3.4 percent. In 2009 you earned a real interest rate of 31) _____
 A) 6.8 percent. B) 1.4 percent. C) -1.4 percent. D) 0.59 percent.
- 32) In the computation of GDP, social security payments count as 32) _____
 A) transfer payments and are included in GDP.
 B) government expenditure on goods and services and are not included in GDP.
 C) government expenditure on goods and services and are included in GDP.
 D) transfer payments and are not included in GDP.
- 33) Bob inherits a large sum of money from his dead uncle's estate. Bob decides to retire young, so he quits his job and heads to the Bahamas. Bob is an example of 33) _____
 A) cyclical unemployment. B) frictional unemployment.
 C) None of the above is correct. D) structural unemployment.
- 34) Suppose the working-age population is 220 million, the labor force is 150 million, and the unemployment rate is 10 percent. The number of unemployed people is 34) _____
 A) 22 million. B) 37 million. C) 7 million. D) 15 million.
- 35) If the inflation rate is negative, the price level in an economy is 35) _____
 A) falling. B) rising rapidly. C) constant. D) rising slowly.
- 36) Short-run contractions and expansions in economic activity are called 36) _____
 A) recessions. B) the business cycle.
 C) expansions. D) deficits.

- 37) At market equilibrium 37) _____
 A) shortages are greater than surpluses. B) demand equals supply.
 C) quantity demanded = quantity supplied. D) surpluses are greater than shortages.
- 38) Saving is a _____ variable, and wealth is a _____ variable. 38) _____
 A) flow; flow B) flow; stock C) stock; flow D) stock; stock



- 39) In the figure above, what can be said about point B? 39) _____
 A) It represents all resources being devoted to the production of apples.
 B) It represents all resources being devoted to the production of oranges.
 C) It can be reached only after economic growth occurs.
 D) It can be attained only if some resources are left unused.

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 40) Scarcity affects only those who are in need. 40) _____
- 41) When IBM, an American firm, produces computer chips in another country, this production is not included in U.S. GDP because the production did not take place in the United States. 41) _____
- 42) When both the demand for a good increases and the supply of the good increases, the equilibrium quantity definitely increases. 42) _____
- 43) If a worker is temporarily laid off because the economy is in a recession, frictional unemployment increases. 43) _____
- 44) To calculate GDP using the expenditure approach, in part it is necessary to add exports and subtract imports. 44) _____
- 45) Nominal GDP measures the value of goods and services using current-year prices. 45) _____
- 46) I love macroeconomics even more than I loved microeconomics. 46) _____

Answer Key

Testname: EXAM1-SPRING2018

- 1) A
- 2) C
- 3) D
- 4) C
- 5) C
- 6) A
- 7) C
- 8) A
- 9) D
- 10) B
- 11) D
- 12) A
- 13) D
- 14) A
- 15) B
- 16) C
- 17) D
- 18) A
- 19) B
- 20) A
- 21) C
- 22) A
- 23) D
- 24) B
- 25) A
- 26) C
- 27) B
- 28) B
- 29) C
- 30) A
- 31) C
- 32) D
- 33) C
- 34) D
- 35) A
- 36) B
- 37) C
- 38) B
- 39) C
- 40) FALSE
- 41) TRUE
- 42) TRUE
- 43) FALSE
- 44) TRUE
- 45) TRUE
- 46) FALSE