

## Principles of Macro - Fall 2008 - EXAM 2

### Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- \_\_\_\_\_ 1. Which of the following is true?
- Although levels of real GDP per person vary substantially from country to country, the growth rate of real GDP per person is similar across countries.
  - Productivity is not closely linked to government policies.
  - The level of real GDP per person is a good gauge of economic prosperity, and the growth rate of real GDP per person is a good gauge of economic progress.
  - Productivity may be measured by the growth rate of real GDP per person.
- \_\_\_\_\_ 2. The average amount of goods and services produced from each hour of a worker's time is called
- per capita GDP
  - per capita GNP
  - productivity
  - human capital
- \_\_\_\_\_ 3. Cedar Valley Furniture uses 5 workers working 8 hours to produce 80 rocking chairs. What is the productivity of these workers?
- 2 chairs per hour.
  - 1 hour per chair.
  - 80 chairs.
  - None of the above are correct.
- \_\_\_\_\_ 4. Which of the following is a part of your Economics professor's human capital?
- the things he learned at some prestigious university
  - his copy of Mankiw's text
  - his computer
  - All of the above are correct.
- \_\_\_\_\_ 5. Which of the following lists contains, in this order, natural resources, human capital, and physical capital?
- For a restaurant: the produce used to make salad, the things the Chef learned at Cooking School, the freezers where the steaks are kept.
  - For a furniture company: wood, the company cafeteria, saws.
  - For a railroad: fuel, railroad engines, railroad tracks.
  - None of the above are correct.
- \_\_\_\_\_ 6. If an economy with constant returns to scale were to double its physical capital stock, its available natural resources, and its human capital, but leave the size of the labor force the same,
- its output would stay the same and so would its productivity.
  - its output and productivity would increase, but less than double.
  - its output and productivity would increase by more than double.
  - None of the above are correct.
- \_\_\_\_\_ 7. In the long run, a higher saving rate
- cannot increase the capital stock.
  - means that people must consume less in the future.
  - increases productivity.
  - None of the above are correct.
- \_\_\_\_\_ 8. Suppose Mexico increases its saving rate. In the long run
- the growth rates of productivity and real GDP per person increase.
  - productivity and real GDP per person increase.
  - the growth rate of productivity increases, and real GDP per person increases.
  - productivity increases, and the growth rate of real GDP per person increases.
- \_\_\_\_\_ 9. The catch-up effect refers to the idea that
- saving will always "catch-up" with investment spending.
  - it is easier for a country to grow fast if it starts out relatively poor.
  - rich countries aid relatively poor countries so as to help them "catch up."
  - if investment spending is low, increased saving will help investment to "catch-up."

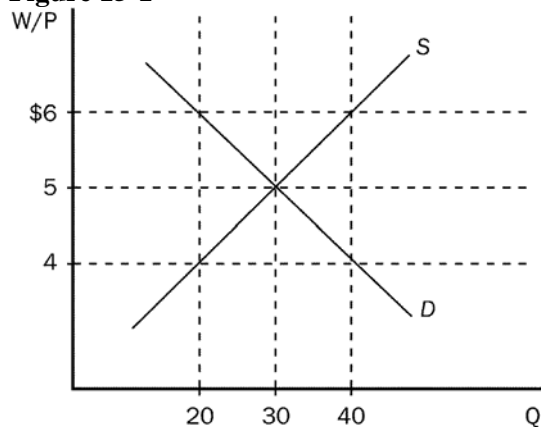
- \_\_\_\_\_ 10. Senator Noitall says that in order to help poor countries develop, the United States should: 1. Prevent U.S. corporations from investing in poor countries because they take profits that the poor countries should have; 2. Not import goods from poor countries that use child labor; 3. Work to promote political stability in poor countries; and 4. Reduce poor countries' reliance on market forces in their economies. How many of these ideas are likely to help poor countries grow?
- 1
  - 2
  - 3
  - 4
- \_\_\_\_\_ 11. When a country saves a larger portion of its GDP, it will have
- less investment, and so have more capital and higher productivity.
  - less investment, and so have less capital and higher productivity.
  - more investment, and so have more capital and higher productivity.
  - more investment, and so have less capital and higher productivity.
- \_\_\_\_\_ 12. A certificate of indebtedness that specifies the obligations of the borrower to the holder is called a
- bond.
  - stock.
  - mutual fund.
  - All of the above are correct.
- \_\_\_\_\_ 13. The price of stock traded on exchanges are determined by
- the Corporate Stock Administration.
  - NASDAQ.
  - the supply and demand for the stock.
  - All of the above are correct.
- \_\_\_\_\_ 14. All else equal, when people become more optimistic about a company's future, the
- supply of the stock and the price will both rise.
  - supply of the stock and the price will both fall.
  - demand for the stock and the price will both rise.
  - demand for the stock and the price will both fall.
- \_\_\_\_\_ 15. The primary advantage of mutual funds is that they
- always make a return that "beats the market."
  - allow people with small amounts of money to diversify.
  - provide customers with a medium of exchange.
  - All of the above are correct.
- \_\_\_\_\_ 16. Which of the following equations most simply represents GDP in a closed economy?
- $Y = C + I + G + NX$
  - $S = I - G$
  - $I = Y - C + G$
  - $Y = C + I + G$
- \_\_\_\_\_ 17. In a closed economy, national saving is
- usually greater than investment.
  - equal to investment.
  - usually less than investment because of the leakage of taxes.
  - always less than investment.
- \_\_\_\_\_ 18. In a closed economy, what does  $(T - G)$  represent?
- national saving
  - investment
  - private saving
  - public saving
- \_\_\_\_\_ 19. Suppose that in a closed economy GDP is equal to 10,000, Taxes are equal to 1,500, Consumption equals 6,500, and Government expenditures equal 2,000. What is national saving?
- 3000
  - 0
  - 1500
  - None of the above are correct.

- \_\_\_\_\_ 20. In a closed economy, private saving is
- the amount of income that households have left after paying for their taxes and consumption.
  - the amount of income that businesses have left after paying for the factors of production.
  - the amount of tax revenue that the government has left after paying for its spending.
  - always equal to investment.
- \_\_\_\_\_ 21. A budget surplus is created if
- the government sells more bonds than it buys back.
  - the government spends more than it receives in tax revenue.
  - private savings are greater than zero.
  - None of the above are correct.
- \_\_\_\_\_ 22. The source of the supply of loanable funds
- is saving and the source of demand for loanable funds is investment.
  - is investment and the source of demand for loanable funds is saving.
  - and the demand for loanable funds is saving.
  - and the demand for loanable funds is investment.
- \_\_\_\_\_ 23. Cyclical unemployment is closely associated with
- long-term economic growth.
  - short-run ups and downs of the economy.
  - fluctuations in the natural rate of unemployment.
  - seasonal fluctuations in spending.
- \_\_\_\_\_ 24. The BLS produces data on
- unemployment.
  - types of employment.
  - length of the average workweek.
  - All of the above are correct.
- \_\_\_\_\_ 25. Who would be included in the labor force?
- Karen, who works most of the week in a steel factory
  - Beth, who is waiting for her new job at the bank to start
  - Dave, who does not have a job, but is looking for work
  - All of the above are included in the labor force.
- \_\_\_\_\_ 26. Tara has just finished school, but she is going to roam around the country awhile before she starts looking for work. As a result, the unemployment rate
- increases, and the labor-force participation rate increases.
  - is unaffected, and the labor-force participation rate is unaffected.
  - increases, and the labor-force participation rate decreases.
  - increases, and the labor-force participation rate is unaffected.
- \_\_\_\_\_ 27. Since World War II, the labor-force participation rate
- has increased for both men and women.
  - increased for women and decreased for men.
  - has decreased for both men and women.
  - decreased for women and increased for men.
- \_\_\_\_\_ 28. Discouraged workers
- are not counted either as part of the adult population or as part of the labor force.
  - are counted as part of the adult population, but not as part of the labor force.
  - are counted as part of the adult population, and as unemployed.
  - None the above are correct.
- \_\_\_\_\_ 29. Which of the following is correct?
- Short-term unemployment is a more serious problem than long-term unemployment.
  - Most spells of unemployment are long term.
  - Most of the currently unemployed have been unemployed a long time.
  - None of the above are correct.

- \_\_\_ 30. People who are unemployed because of job search are best classified as
  - a. cyclically unemployed.
  - b. structurally unemployed.
  - c. frictionally unemployed.
  - d. discouraged workers.
- \_\_\_ 31. Unemployment insurance
  - a. reduces search effort and raises unemployment
  - b. reduces search efforts and lowers unemployment
  - c. increases search effort and raises unemployment
  - d. increases search effort and decreases unemployment
- \_\_\_ 32. If the minimum wage was currently above the equilibrium wage, than a decrease in the minimum wage would
  - a. increase both the quantity demanded and the quantity supplied of labor.
  - b. decrease both the quantity demanded and the quantity supplied of labor.
  - c. increase the quantity of labor demanded and decrease the quantity supplied.
  - d. decrease the quantity of labor demanded and increase the quantity supplied.

The following questions are based on the figure below which shows the effect of a minimum-wage law.

**Figure 15-1**



- \_\_\_ 33. Refer to Figure 15-1. If there was no minimum wage and then the government instituted a minimum wage of \$6, in this market
  - a. employment would rise by 10.
  - b. employment would fall by 20.
  - c. unemployment would increase by 10.
  - d. unemployment would increase by 20.
- \_\_\_ 34. Collective bargaining refers to
  - a. the process by which the government sets exemptions from the minimum wage law.
  - b. setting the same wage for all employees to prevent jealousy among workers.
  - c. firms colluding to set the wages of employees in order to keep them below equilibrium.
  - d. the process by which unions and firms agree on the terms of employment.
- \_\_\_ 35. Samantha, the CEO of a corporation operating in Uganda, decides to raise the wages of her workers even though she faces an excess supply of labor. Her decision
  - a. might increase profits if it means that the wage is high enough for her workers to eat a nutritious diet that makes them more productive.
  - b. will help eliminate the excess supply of labor if she raises it sufficiently.
  - c. will cause unemployment to fall.
  - d. All of the above are correct.

**Principles of Macro - Fall 2008 - EXAM 2**  
**Answer Section**

**MULTIPLE CHOICE**

- |     |                        |        |                    |
|-----|------------------------|--------|--------------------|
| 1.  | ANS: C<br>OBJ: TYPE: M | DIF: 2 | REF: SECTION: 12.0 |
| 2.  | ANS: C<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 12.0 |
| 3.  | ANS: A<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 12.2 |
| 4.  | ANS: A<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 12.2 |
| 5.  | ANS: A<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 12.2 |
| 6.  | ANS: B<br>OBJ: TYPE: M | DIF: 3 | REF: SECTION: 12.2 |
| 7.  | ANS: C<br>OBJ: TYPE: M | DIF: 2 | REF: SECTION: 12.3 |
| 8.  | ANS: B<br>OBJ: TYPE: M | DIF: 2 | REF: SECTION: 12.3 |
| 9.  | ANS: B<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 12.3 |
| 10. | ANS: A<br>OBJ: TYPE: M | DIF: 2 | REF: SECTION: 12.3 |
| 11. | ANS: C<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 13.0 |
| 12. | ANS: A<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 13.1 |
| 13. | ANS: C<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 13.1 |
| 14. | ANS: C<br>OBJ: TYPE: M | DIF: 2 | REF: SECTION: 13.1 |
| 15. | ANS: B<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 13.1 |
| 16. | ANS: D<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 13.2 |
| 17. | ANS: B<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 13.2 |
| 18. | ANS: D<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 13.2 |
| 19. | ANS: C<br>OBJ: TYPE: M | DIF: 2 | REF: SECTION: 13.2 |
| 20. | ANS: A<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 13.2 |
| 21. | ANS: D<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 13.2 |
| 22. | ANS: A<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 13.2 |
| 23. | ANS: B<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 15.0 |
| 24. | ANS: D<br>OBJ: TYPE: M | DIF: 1 | REF: SECTION: 15.1 |

25.	ANS: D	DIF: 1	REF: SECTION: 15.1
	OBJ: TYPE: M		
26.	ANS: B	DIF: 1	REF: SECTION: 15.1
	OBJ: TYPE: M		
27.	ANS: B	DIF: 1	REF: SECTION: 15.1
	OBJ: TYPE: M		
28.	ANS: B	DIF: 1	REF: SECTION: 15.1
	OBJ: TYPE: M		
29.	ANS: C	DIF: 1	REF: SECTION: 15.1
	OBJ: TYPE: M		
30.	ANS: C	DIF: 1	REF: SECTION: 15.1
	OBJ: TYPE: M		
31.	ANS: A	DIF: 1	REF: SECTION: 15.2
	OBJ: TYPE: M		
32.	ANS: C	DIF: 2	REF: SECTION: 15.3
	OBJ: TYPE: M		
33.	ANS: D	DIF: 2	REF: SECTION: 15.3
	OBJ: TYPE: M		
34.	ANS: D	DIF: 1	REF: SECTION: 15.4
	OBJ: TYPE: M		
35.	ANS: A	DIF: 1	REF: SECTION: 15.5
	OBJ: TYPE: M		