

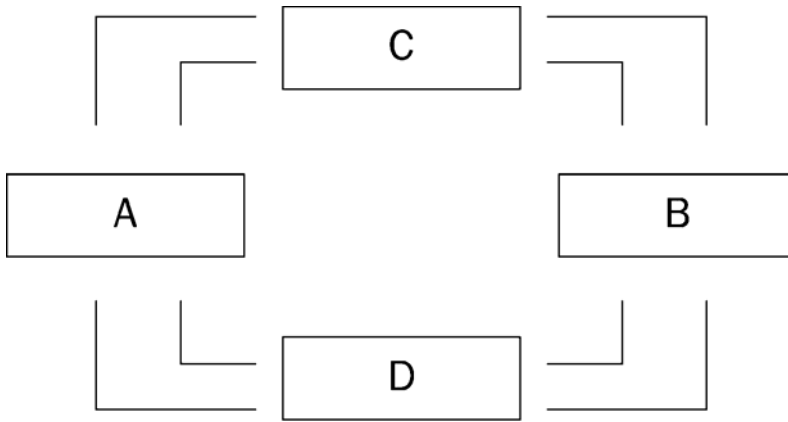
Principles of Macro FALL 2008 EXAM 1

Multiple Choice

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

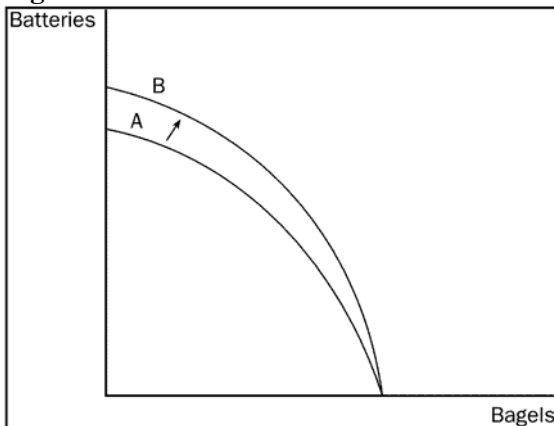
- ___ 1. Economists use the word equity to describe a situation in which
 - a. each member of society has the same income.
 - b. society is getting the most it can from its scarce resources.
 - c. those in society who have the least will receive the most.
 - d. the benefits of society's resources are distributed fairly among society's members.
- ___ 2. When government policies such as the welfare system try to help the most needy members of society, it
 - a. increases equity and reduces efficiency.
 - b. reduces charitable contributions in an economy.
 - c. increases the productivity of the needy in the society.
 - d. causes market failure to occur.
- ___ 3. Your professor loves her work, teaching economics. She has been offered other positions in the corporate world making 25 percent more, but has decided to stay in teaching. Her decision would not change unless the marginal
 - a. cost of teaching increased.
 - b. benefit of teaching increased.
 - c. cost of teaching decreased.
 - d. cost of a corporate job increased.
- ___ 4. An externality is the impact of
 - a. one person's actions on the well-being of a bystander.
 - b. a person's actions on that person's well-being.
 - c. society's decisions on the well-being of society.
 - d. society's decisions on the well-being of one person in the society.
- ___ 5. When a single entity has the ability to influence market prices, there is
 - a. competition.
 - b. market power.
 - c. efficiency.
 - d. productivity.
- ___ 6. Which of the following is the most accurate statement about economic models?
 - a. Economic models attempt to mirror reality exactly.
 - b. Economic models are useful, but should not be used for policymaking.
 - c. Economic models omit many details to allow us to see what is truly important.
 - d. Economic models cannot be used in the real world because they omit details.
- ___ 7. In the factors of production market, households
 - a. are sellers and firms are buyers.
 - b. are buyers and firms are sellers.
 - c. and firms are both buyers.
 - d. and firms are both sellers.

Figure 2-2



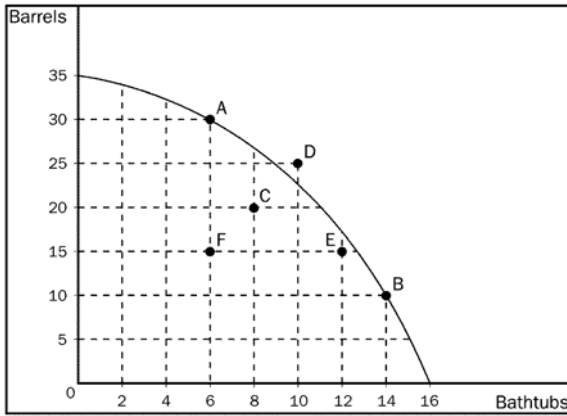
- ___ 8. Refer to Figure 2-2. The inner loop represents the flow of
- inputs to firms and output to households.
 - output to firms and inputs to households.
 - spending to firms and factor payments to households.
 - spending to households and factor payments to firms.
- ___ 9. The production possibilities frontier is a
- map which shows the frontier beyond which agriculture is unprofitable.
 - map which shows areas of the world in which capitalist production is now possible.
 - graph which shows the various combinations of resources that can be used to produce a given level of output.
 - graph that shows the various combinations of output the economy can possibly produce given the available resources and technology.

Figure 2-5



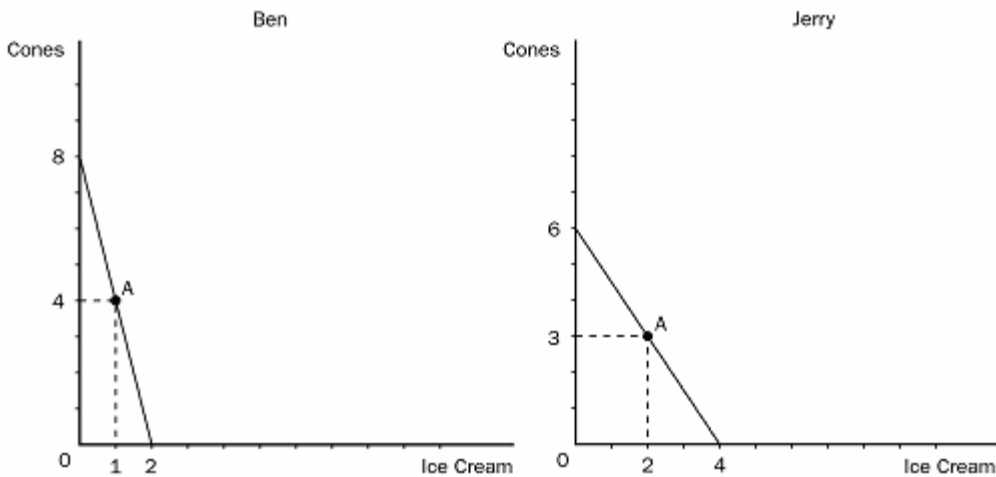
- ___ 10. Refer to Figure 2-5. The shift of the frontier from A to B was most likely caused by which of the following?
- technological improvement in the production of batteries
 - more labor available in the economy
 - a general technological breakthrough
 - more capital available in the economy

Figure 2-8



11. Refer to Figure 2-8. What is the opportunity cost of moving from point A to point B?
- 8 bathtubs
 - 20 barrels
 - the difference between the 8 bathtubs you get and the 20 barrels you give up
 - the difference between the 20 barrels you get and the 8 bathtubs you give up

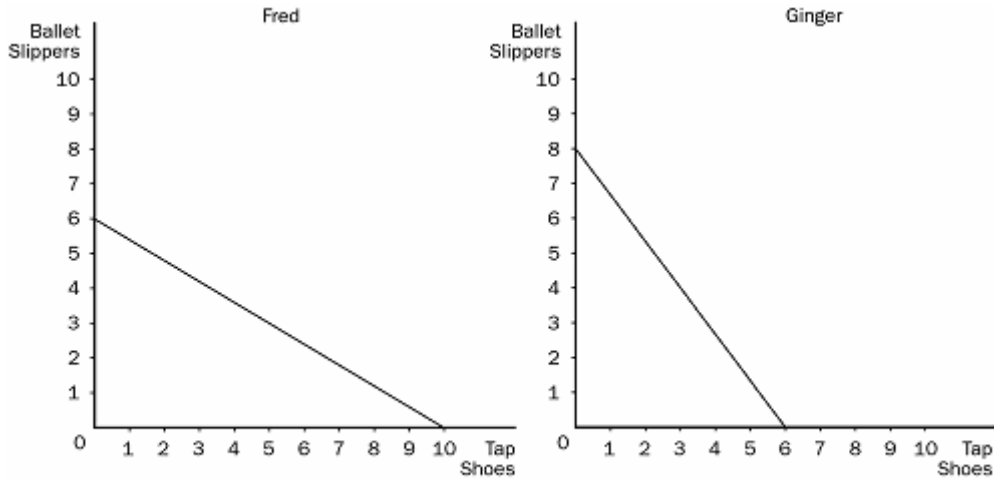
Figure 3-2



12. Refer to Figure 3-2. For Ben, the opportunity cost of 1 pound of ice cream is
- 4 pounds of cones.
 - 1/2 pound of cones.
 - 2 pounds of cones.
 - 1/4 pound of cones.
13. Refer to Figure 3-2. Ben has a comparative advantage in
- cones and Jerry has a comparative advantage in ice cream.
 - ice cream and Jerry has a comparative advantage in cones.
 - neither good and Jerry has a comparative advantage in both goods.
 - both goods and Jerry has a comparative advantage in neither good.

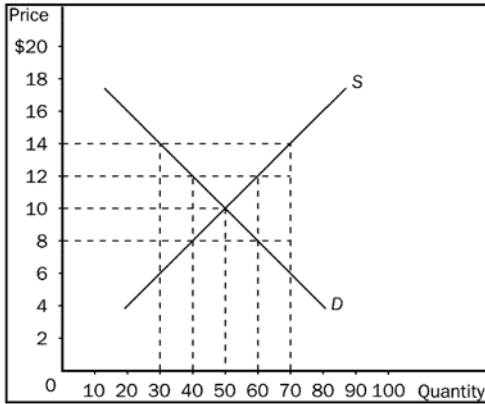
These graphs illustrate the production possibilities available for dancing shoes to Fred and Ginger with 40 hours of labor.

Figure 3-3



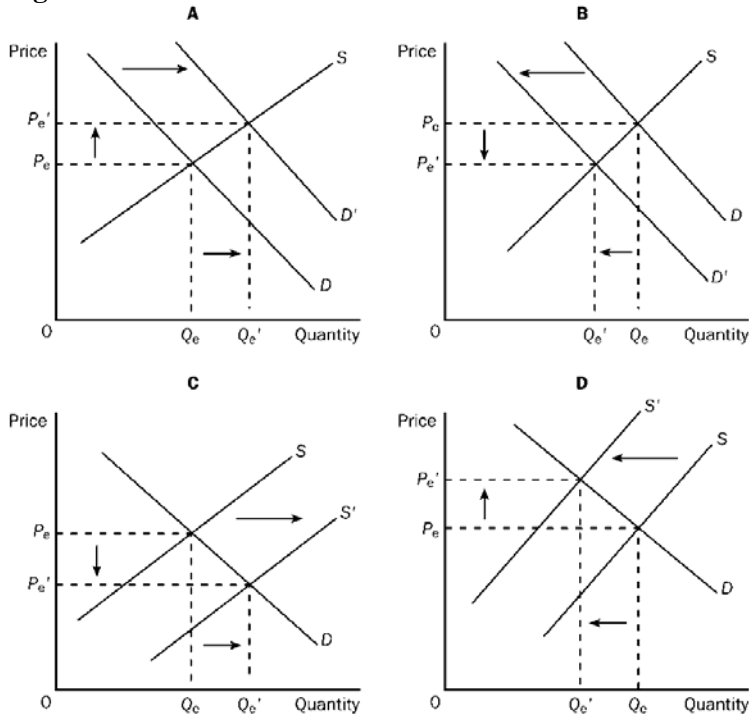
- ___ 14. Refer to Figure 3-3. Ginger should specialize in
- tap shoes and Fred should specialize in ballet slippers.
 - both goods and Fred should specialize in neither good.
 - ballet slippers and Fred should specialize in tap shoes.
 - neither good and Fred should specialize in both goods.
- ___ 15. Assume that Greece has a comparative advantage in fish and Germany has a comparative advantage in cars. If these two countries specialize and trade according to their comparative advantage, which of the following would NOT be true?
- Greece will specialize in and export fish.
 - Some individuals in each country will be hurt.
 - More of each good can be consumed in both countries.
 - Greece will benefit from trade more than Germany.
- ___ 16. In a free market, who determines how much of a good will be sold and the price at which it is sold?
- suppliers
 - demanders
 - the government
 - suppliers and demanders together
- ___ 17. Price takers refer to buyers and sellers in
- a perfectly competitive market.
 - a monopolistically competitive market.
 - an oligopolistic market.
 - a monopolistic market.
- ___ 18. If suppliers expect the price of their product to fall in the future they will
- decrease supply now.
 - increase supply now.
 - increase supply in the future but not now.
 - do nothing, since there is nothing they can do to affect the price in the future.

Figure 4-8



19. Refer to Figure 4-8. If price in this market is currently \$8, quantity supplied would be
- 40 and quantity demanded would be 60.
 - 60 and quantity demanded would be 40.
 - 50 and quantity demanded would be 50.
 - 70 and quantity demanded would be 30.

Figure 4-10



20. Refer to Figure 4-10. Which of the four graphs represents the market for peanut butter after a major hurricane hits the peanut-growing south?
- A
 - B
 - C
 - D
21. Which of the following would unambiguously cause a decrease in the equilibrium price of cotton shirts?
- an increase in the price of wool shirts and a decrease in the price of raw cotton
 - a decrease in the price of wool shirts and a decrease in the price of raw cotton

- c. an increase in the price of wool shirts and an increase in the price of raw cotton
 d. a decrease in the price of wool shirts and an increase in the price of raw cotton
- ___ 22. Which of the following is the correct definition of GDP?
 a. the market value of all goods produced within a country
 b. the market value of all final goods and services produced by the citizens of a country
 c. the market value of all final goods and services produced within a country
 d. None of the above are correct.
- ___ 23. GDP
 a. includes the value of intermediate goods so we can get a measure of sales.
 b. excludes the value of intermediate goods because they are too difficult to measure.
 c. excludes the value of intermediate goods because their value is already counted in the value of final goods.
 d. None of the above are correct.
- ___ 24. Which of the following is included in U.S. GDP?
 a. goods produced by foreign citizens working in the United States
 b. the difference in the price of the sale of an existing home and its original purchase price
 c. known illegal activities
 d. None of the above are correct.
- ___ 25. If you buy a burger and fries at your favorite fast food restaurant
 a. neither GDP nor consumption spending will be affected because you would have eaten at home if you hadn't eaten at the restaurant.
 b. GDP will be higher, but consumption spending will be unchanged.
 c. GDP will be unchanged, but consumption spending will be higher.
 d. both GDP and consumption spending will be higher.
- ___ 26. Which of the following represents a transfer payment?
 a. you transfer \$1,000 from your bank account to a mutual fund.
 b. the government sends your grandfather his Social Security check.
 c. the bank transfers \$10 quarterly interest to your savings account.
 d. your employer automatically transfers \$100 each month from your wages to a non-taxable medical spending account.
- ___ 27. Consider the following table for the country of Ophir:

<u>Year</u>	<u>Nominal GDP</u>	<u>GDP Deflator</u>
2000	\$4000	100
2001	\$4100	105
2002	\$4200	110

- From this information we can conclude that real GDP was higher in
- a. 2002 than in 2001, and real GDP in 2001 was higher than in 2000.
 b. 2001 than in 2000, and real GDP in 2001 was higher than in 2002.
 c. 2000 than in 2001, and real GDP in 2001 was higher than in 2002.
 d. 2000 than in 2002, and real GDP in 2001 was higher than in 2000.
- ___ 28. Suppose GDP consists of wheat and rice. In 2002, 20 bushels of wheat are sold at \$4 per bushel, and 10 bushels of rice are sold at \$2 per bushel. If the price of wheat was \$2 per bushel and the price of rice was \$1 per bushel in 2001, the base year, nominal 2002 GDP is
 a. \$100, real 2002 GDP is \$50, and the GDP deflator is 50.
 b. \$50, real 2002 GDP is \$100, and the GDP deflator is 200.
 c. \$100, real 2002 GDP is \$50, and the GDP deflator is 200.
 d. \$40, real 2002 GDP is \$100, and the GDP deflator is 50.
- ___ 29. When the consumer price index rises, the typical family
 a. has to spend more dollars to maintain the same standard of living.

- b. can spend fewer dollars to maintain the same standard of living.
- c. finds that its standard of living is not affected.
- d. can offset the effects of rising prices by saving more.

Use the following information to answer the following questions.

In the country of Shem, the CPI is calculated using a market basket consisting of 5 apples, 4 loaves of bread, 3 robes and 2 gallons of gasoline. The per-unit prices of these goods have been as follows:

Table 11-3

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

- ___ 30. Refer to Table 11-3. What was the inflation rate, as measured by the CPI, between 2000 and 2001?
 - a. 28.5 percent
 - b. 34.2 percent
 - c. 47 percent
 - d. It is impossible to determine without knowing the base year.
- ___ 31. When the relative price of a good increases, consumers will respond by buying
 - a. more of it and its substitutes.
 - b. less of it and its substitutes.
 - c. less of it and more of its substitutes.
 - d. more of it and less of its substitutes.
- ___ 32. The basket of goods in the consumer price index changes
 - a. occasionally, as does the basket of goods used to compute the GDP deflator.
 - b. yearly, as does the basket of goods used to compute the GDP deflator.
 - c. occasionally while the basket of goods used to compute the GDP deflator changes yearly.
 - d. yearly while the basket of goods used to compute the GDP deflator changes occasionally.
- ___ 33. The CPI and the GDP deflator
 - a. generally move together.
 - b. generally show different patterns of movement.
 - c. always show identical changes.
 - d. always show different patterns of movement.

The following questions are based on the following information:

Scenario 11-1

Grant Smith was a doctor in 1944 and made about \$12,000 a year. His daughter Lisa Smith also is a doctor and last year she made about \$175,000 in 2001. The price index in 1950 was 17.6 and the price index was 177 in 2001.

- ___ 34. Refer to Scenario 11-1. What is Grant's income in 2001 dollars?
 - a. \$19,128
 - b. \$21,240
 - c. \$120,682
 - d. \$173,600

Principles of Macro FALL 2008 EXAM 1
Answer Section

MULTIPLE CHOICE

- | | | | |
|-----|--------------------------|--------|--------------------|
| 1. | ANS: D
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 1 |
| 2. | ANS: A
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 2 |
| 3. | ANS: A
OBJ: TYPE: M | DIF: 3 | REF: SECTION: 1 |
| 4. | ANS: A
OBJ: TYPE: M 2 | DIF: 1 | REF: SECTION: 2 |
| 5. | ANS: B
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 2 |
| 6. | ANS: C
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 1 |
| 7. | ANS: A
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 1 |
| 8. | ANS: A
OBJ: TYPE: M | DIF: 3 | REF: SECTION: 1 |
| 9. | ANS: D
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 1 |
| 10. | ANS: A
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 1 |
| 11. | ANS: B
OBJ: TYPE: M | DIF: 3 | REF: SECTION: 1 |
| 12. | ANS: A
OBJ: TYPE: M | DIF: 3 | REF: SECTION: 2 |
| 13. | ANS: A
OBJ: TYPE: M | DIF: 3 | REF: SECTION: 2 |
| 14. | ANS: C
OBJ: TYPE: M | DIF: 3 | REF: SECTION: 2 |
| 15. | ANS: D
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 3 |
| 16. | ANS: D
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 1 |
| 17. | ANS: A
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 1 |
| 18. | ANS: B
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 3 |
| 19. | ANS: A
OBJ: TYPE: M | DIF: 3 | REF: SECTION: 4 |
| 20. | ANS: D
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 4 |
| 21. | ANS: B
OBJ: TYPE: M | DIF: 3 | REF: SECTION: 4 |
| 22. | ANS: C
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 10.2 |
| 23. | ANS: C | DIF: 1 | REF: SECTION: 10.2 |

	OBJ: TYPE: M		
24.	ANS: A	DIF: 2	REF: SECTION: 10.2
	OBJ: TYPE: M		
25.	ANS: D	DIF: 1	REF: SECTION: 10.3
	OBJ: TYPE: M		
26.	ANS: B	DIF: 1	REF: SECTION: 10.3
	OBJ: TYPE: M		
27.	ANS: C	DIF: 3	REF: SECTION: 10.4
	OBJ: TYPE: M		
28.	ANS: C	DIF: 2	REF: SECTION: 10.4
	OBJ: TYPE: M		
29.	ANS: A	DIF: 1	REF: SECTION: 11.0
	OBJ: TYPE: M		
30.	ANS: B	DIF: 3	REF: SECTION: 11.1
	OBJ: TYPE: M		
31.	ANS: C	DIF: 2	REF: SECTION: 11.1
	OBJ: TYPE: M		
32.	ANS: C	DIF: 1	REF: SECTION: 11.1
	OBJ: TYPE: M		
33.	ANS: A	DIF: 1	REF: SECTION: 11.1
	OBJ: TYPE: M		
34.	ANS: C	DIF: 1	REF: SECTION: 11.1
	OBJ: TYPE: TF		