

Principles of Macroeconomics
Quiz, Chap. 11-15**q11-15****Multiple Choice**

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

Use the table below to answer the following questions.

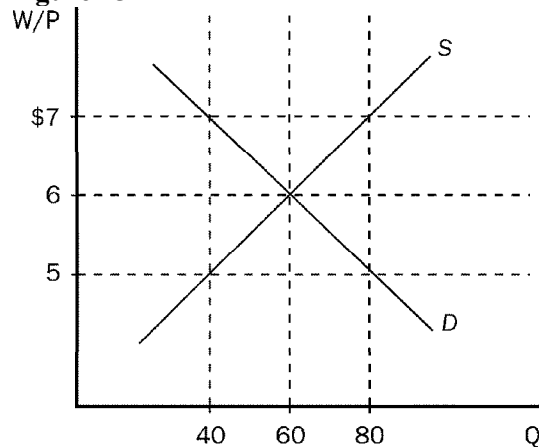
Table 11-2

year	price of pork	price of corn
2003	\$20	\$20
2004	\$20	\$30

- _____ 1. Refer to Table 11-2. Suppose that the basket of goods in the CPI consisted of 3 units of pork and 2 units of corn. What is the consumer price index for 2004 if the base year is 2003?
- 100
 - 105
 - 115
 - 120
- _____ 2. The labor force equals the
- number of people who are employed.
 - number of people who are unemployed.
 - number of people employed plus the number of people unemployed.
 - adult population.
- _____ 3. The labor-force participation rate is defined as
- $(\text{Employed} \div \text{Adult Population}) \times 100$.
 - $(\text{Employed} \div \text{Labor Force}) \times 100$.
 - $(\text{Labor Force} \div \text{Adult Population}) \times 100$.
 - $(\text{Adult Population} \div \text{Labor Force}) \times 100$.
- _____ 4. Consider two people who are currently out of work. Tim is not looking for work because there have been many job cuts where he lives and he doesn't think it likely that he will find work. Bev is not currently looking for work, but she would like a job. While she hasn't looked for work for sometime, she has looked for work in the past. The BLS considers
- both Tim and Bev to be marginally attached workers.
 - neither Tim nor Bev to be marginally attached workers.
 - only Tim to be a marginally attached worker.
 - only Bev to be a marginally attached worker.

Use the graph below to answer the following questions.

Figure 15-2



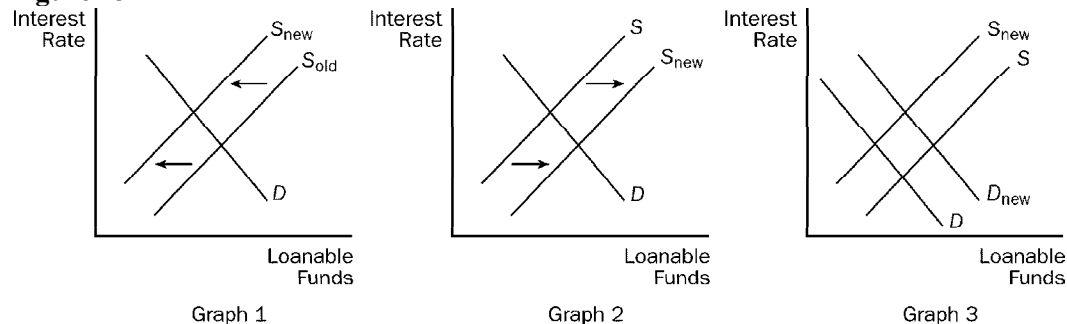
- _____ 5. Refer to Figure 15-2. If the minimum wage rose from \$6 to \$7, unemployment would
- rise by 40.
 - rise by 20.
 - fall by 20.
 - fall by 40.
- _____ 6. Which of the following is incorrect?
- A union is a form of cartel.
 - Union workers typically earn 20 to 30 percent more than similar nonunionized workers.
 - The power of a union comes from its ability to strike if its demands are not met.
 - Workers in unions reap the benefits of collective bargaining, while workers not in unions bear some of the cost.
- _____ 7. An increase in the price of domestically produced industrial robots will be reflected in
- both the GDP deflator and the consumer price index.
 - neither the GDP deflator nor the consumer price index.
 - the GDP deflator but not in the consumer price index.
 - the consumer price index but not in the GDP deflator.
- _____ 8. Which of the following is the most accurate statement about the relationship between the nominal interest rate and the real interest rate?
- The real interest rate is the nominal interest rate times the rate of inflation.
 - The real interest rate is the nominal interest rate minus the rate of inflation.
 - The real interest rate is the nominal interest rate plus the rate of inflation.
 - The real interest rate is the nominal interest rate divided by the rate of inflation.
- _____ 9. A nation's standard of living is measured by its
- real GDP.
 - real GDP per person.
 - nominal GDP.
 - nominal GDP per person.

- _____ 10. Which of the following does the level of real GDP measure?
- a. total real income
 - b. productivity
 - c. the standard of living
 - d. All of the above are correct.
- _____ 11. A nation's standard of living is determined by
- a. its productivity.
 - b. its gross domestic product.
 - c. its national income.
 - d. how much it has relative to others.
- _____ 12. In 2002, Freedonia had a population of 2,700 and real GDP of about 11,610,000. In 2001 it had a population of 2,500 and real GDP of about 10,000,000. What was the approximate growth rate of real GDP per person in Freedonia between 2001 and 2002?
- a. 7.5 percent
 - b. 12.5 percent
 - c. 20.5 percent
 - d. 35.5 percent
- _____ 13. If your firm has constant returns to scale, then if you doubled all your inputs your firm's output would
- a. not change.
 - b. increase, but by less than double.
 - c. double.
 - d. more than double.
- _____ 14. A government can encourage growth and, in the long run, raise the economy's standard of living by encouraging
- a. population growth.
 - b. consumption.
 - c. saving and investment.
 - d. spending.
- _____ 15. Which of the following is consistent with the catch-up effect?
- a.
 - b. After World War II the United States had lower growth rates than war-ravaged European countries.
 - c. Although the United States has a relatively high level of output per person, its growth rate is rather modest compared to some countries.
 - d. All of the above are correct.
- _____ 16. Which of the following is correct?
- a. Lenders sell bonds and borrowers buy them.
 - b. Long-term bonds usually pay a lower interest rate than do short-term bonds because long-term bonds are riskier.
 - c. Junk bonds refer to bonds that have been resold many times.
 - d. None of the above are correct.
- _____ 17. Financial intermediaries are
- a. the same as financial markets.
 - b. individuals who make a profits by buying a stock low and selling it high.
 - c. a more general name for financial assets such as stocks, bonds, and checking accounts.
 - d. financial institutions through which savers can indirectly provide funds to borrowers.

- _____ 18. Which of the following equations will always represent GDP in an open economy?
- $S = I - G$
 - $I = Y - C + G$
 - $Y = C + I + G$
 - $Y = C + I + G + NX$
- _____ 19. 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.
- _____ 20. The slope of the supply of loanable funds curve represents the
- positive relation between the real interest rate and investment.
 - positive relation between the real interest rate and saving.
 - negative relation between the real interest rate and investment.
 - negative relation between the real interest rate and saving.
- _____ 21. A change in the tax laws which increases the supply of loanable funds will have a bigger effect on investment when
- the demand for loanable funds is more elastic and the supply of loanable funds is more inelastic.
 - the demand for loanable funds is more inelastic and the supply of loanable funds is more elastic.
 -
 - both the demand for and supply of loanable funds are more inelastic.

Use the figure below for the following questions.

Figure 13-1



- _____ 22. Refer to Figure 13-1. Which of the graphs in the figure above shows the effects of an increase in the tax rate on saving?
- graph 1
 - graph 2
 - graph 3
 - None of the above are correct.

Short Answer

23. List the three major problems in using the CPI as a measure of the cost of living.

q11-15
Answer Section

MULTIPLE CHOICE

- | | | | |
|-----|------------------------|--------|--------------------|
| 1. | ANS: D
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 11.1 |
| 2. | ANS: C
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 15.1 |
| 3. | ANS: C
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 15.1 |
| 4. | ANS: A
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 15.1 |
| 5. | ANS: A
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 15.3 |
| 6. | ANS: B
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 15.4 |
| 7. | ANS: C
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 11.1 |
| 8. | ANS: B
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 11.2 |
| 9. | ANS: B
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 12.0 |
| 10. | ANS: A
OBJ: TYPE: M | DIF: 2 | REF: SECTION: 12.0 |
| 11. | ANS: A
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 12.0 |
| 12. | ANS: A
OBJ: TYPE: M | DIF: 3 | REF: SECTION: 12.1 |
| 13. | ANS: C
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 12.2 |
| 14. | ANS: C
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 12.3 |
| 15. | ANS: D
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 12.3 |
| 16. | ANS: D
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 13.1 |
| 17. | ANS: D
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 13.1 |
| 18. | ANS: D
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 13.2 |
| 19. | ANS: A
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 13.2 |
| 20. | ANS: B
OBJ: TYPE: M | DIF: 1 | REF: SECTION: 13.3 |
| 21. | ANS: A
OBJ: TYPE: M | DIF: 3 | REF: SECTION: 13.3 |

22. ANS: A DIF: 2 REF: SECTION: 13.3
OBJ: TYPE: M

SHORT ANSWER

23. ANS:
(1) Substitution bias. The CPI ignores the fact that consumers substitute toward goods that have become relatively less expensive. (2) introduction of new goods. Because the CPI uses a fixed basket of goods, it does not take into account the increased well-being of consumers created when new goods are introduced. (3)

DIF: 2 REF: SECTION: 11.1 OBJ: TYPE: S