

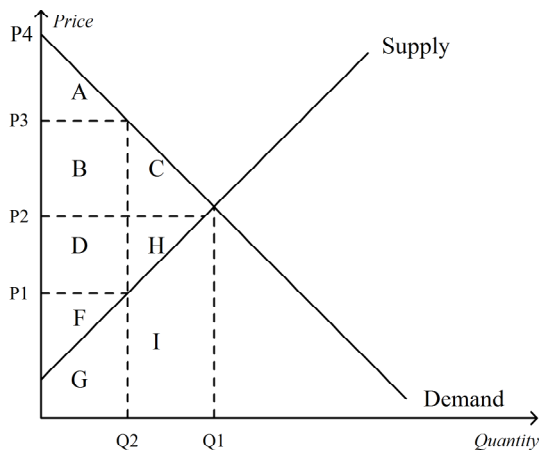
Exam 02 - ECON 2301-05 - Wednesday, November 3**Multiple Choice**

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

1. The price of a good that prevails in a world market is called the
 - a. absolute price.
 - b. comparative price.
 - c. relative price.
 - d. world price.
2. If an economy used gold as money, its money would be
 - a. fiat money, but not commodity money.
 - b. both fiat and commodity money.
 - c. commodity money, but not fiat money.
 - d. functioning as a store of value and as a unit of account, but not as a medium of exchange.
3. When a tax is levied on a good,
 - a. neither buyers nor sellers are made worse off.
 - b. only buyers are made worse off.
 - c. both buyers and sellers are made worse off.
 - d. only sellers are made worse off.

Figure 1

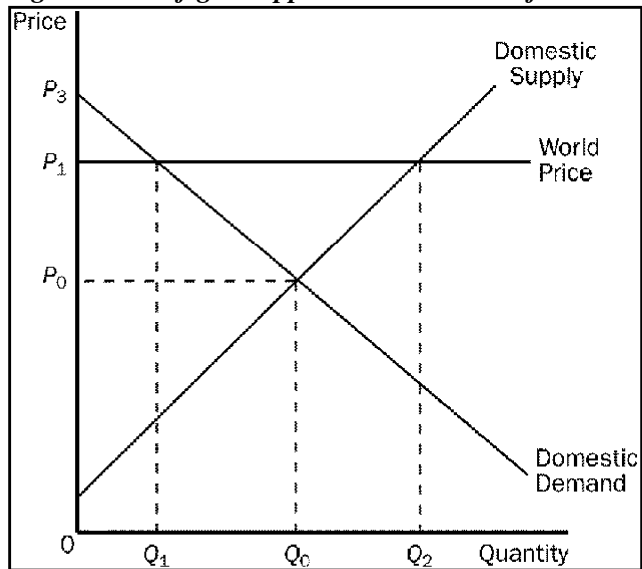
Suppose that the government imposes a tax of $P_3 - P_1$.



4. **Refer to Figure 1.** After the tax is levied, consumer surplus is represented by area
 - a. $A+B+C$.
 - b. F.
 - c. A.
 - d. $D+H+F$.

5. Waldo works eight hours and produces 7 units of goods per hour. Emerson works six hours and produces 10 units of goods per hour.
 - a. Waldo's productivity and output are greater than Emerson's.
 - b. Emerson's productivity and output are greater than Waldo's.
 - c. Emerson's productivity is greater than Waldo's but his output is less.
 - d. Waldo's productivity is greater than Emerson's but his output is less.
6. M1 includes
 - a. demand deposits.
 - b. travelers' checks.
 - c. currency.
 - d. All of the above are correct.
7. The amount of deadweight loss that results from a tax of a given size is determined by
 - a. the ratio of the tax per unit to the effective price received by sellers.
 - b. the number of buyers in the market relative to the number of sellers.
 - c. the price elasticities of demand and supply.
 - d. whether the tax is levied on buyers or sellers.
8. Which of the following is *not* correct?
 - a. Most economists agree that eliminating unemployment insurance would increase the nation's overall level of well-being.
 - b. The unemployment rate is an imperfect measure of a nation's overall level of economic well-being.
 - c. Other things the same, countries that offer more generous and longer-lasting unemployment insurance benefits are likely to have higher unemployment rates.
 - d. Most job search in the U.S. economy takes place without intervention by the government.
9. The consumer price index tries to gauge how much incomes must rise to maintain
 - a. the highest standard of living possible.
 - b. a decreasing standard of living.
 - c. a constant standard of living.
 - d. an increasing standard of living.

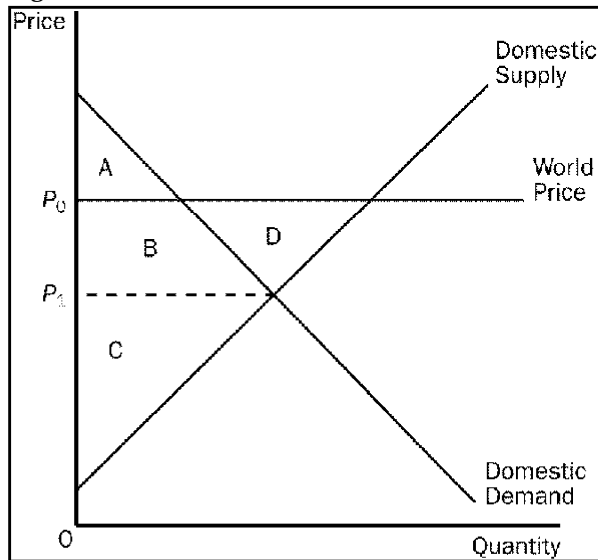
Figure 2. The figure applies to the nation of Wales and the good is cheese.



10. Refer to Figure 2. With trade, Wales
 - a. imports $Q_2 - Q_0$ units of cheese.
 - b. exports $Q_2 - Q_0$ units of cheese.
 - c. exports $Q_2 - Q_1$ units of cheese.
 - d. imports $Q_2 - Q_1$ units of cheese.
11. Jouke is on a temporary layoff from his factory job. The Bureau of Labor Statistics counts Jouke as
 - a. unemployed and not in the labor force.
 - b. employed and not in the labor force.
 - c. unemployed and in the labor force.
 - d. employed and in the labor force.
12. Consider a small economy in which consumers buy only two goods: apples and pears. In order to compute the consumer price index for this economy for two or more consecutive years, we assume that
 - a. the number of apples bought by the typical consumer is equal to the number of pears bought by the typical consumer in each year.
 - b. neither the number of apples nor the number of pears bought by the typical consumer changes from year to year.
 - c. the percentage change in the price of apples is equal to the percentage change in the price of pears from year to year.
 - d. neither the price of apples nor the price of pears changes from year to year.
13. If the nominal interest rate is 4 percent and the real interest rate is -2.5 percent, then the inflation rate is
 - a. -1.5 percent.
 - b. -6.5 percent.
 - c. 6.5 percent.
 - d. 1.5 percent.

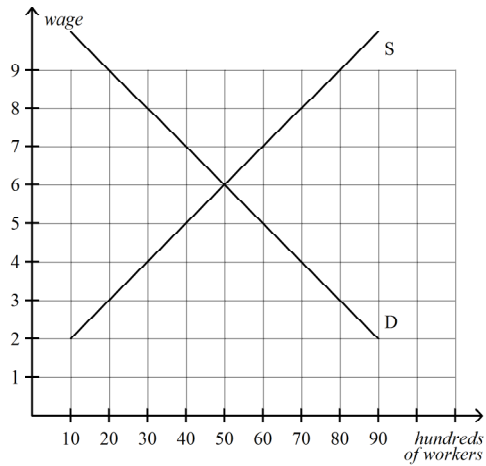
14. The Bureau of Labor Statistics produces data on
 - a. types of employment.
 - b. length of the average workweek.
 - c. unemployment.
 - d. All of the above are correct.
15. The assumption of a *closed economy*
 - a. applies to the world economy.
 - b. applies to most national economies.
 - c. requires us to assume that the government's budget is always balanced.
 - d. All of the above are correct.
16. Which of the following statements about *mutual funds* is correct?
 - a. A mutual fund is a financial intermediary.
 - b. A mutual fund acquires its funds primarily by selling shares to the public.
 - c. People who buy shares from a mutual fund accept all of the risk and return associated with the mutual fund's portfolio.
 - d. All of the above are correct.
17. If the reserve ratio is 8 percent, banks do not hold excess reserves, and people do not hold currency, then when the Fed purchases \$20 million of government bonds, bank reserves
 - a. increase by \$20 million and the money supply eventually increases by \$250 million.
 - b. decrease by \$20 million and the money supply eventually increases by \$250 million.
 - c. decrease by \$20 million and the money supply eventually decreases by \$250 million.
 - d. increase by \$20 million and the money supply eventually decreases by \$250 million.
18. Educated people may generate ideas that increase production. These ideas
 - a. could justify government subsidies for education.
 - b. produce a return to society from education that is greater than the return to the individual.
 - c. are external benefits of education.
 - d. All of the above are correct.
19. Frictional unemployment is
 - a. inevitable, because at any given time, jobs are being created in some firms and destroyed in other firms.
 - b. not inevitable; rather, it could be reduced to zero if by the elimination of unemployment insurance.
 - c. not inevitable; rather, it can be reduced to zero by well-designed public policies.
 - d. inevitable, because in some industries, wages are always set above the level that brings supply and demand into equilibrium.
20. Which of the following would be considered physical capital?
 - a. bulldozers, backhoes and other construction equipment
 - b. the available knowledge on how to make semiconductors
 - c. a taxi-cab driver's knowledge of the fastest routes to take
 - d. All of the above are correct.

21. Which of the following is consistent with the catch-up effect?
- Although the United States has a relatively high level of output per person, its growth rate is rather modest compared to some countries.
 - After World War II the United States had lower growth rates than war-ravaged European countries.
 - The United States had a higher growth rate before 1900 than after.
 - All of the above are correct.
22. Deadweight loss measures the loss
- in a market to buyers and sellers that is not offset by an increase in government revenue.
 - of total revenue to business firms due to the price wedge caused by the tax.
 - in revenue to the government when buyers choose to buy less of the product because of the tax.
 - of equality in a market due to government intervention.

Figure 3

23. **Refer to Figure 3.** Consumer surplus in this market after trade is
- C.
 - A.
 - A + B + D.
 - A + B.
24. If the reserve ratio is 10 percent, the money multiplier is
- 100.
 - 9/10.
 - 10.
 - 1/10.

25. In addition to
- serving as stores of value, stocks and bonds also serve as media of exchange.
 - serving as financial markets, mutual funds are important in that they help create a store of value.
 - performing financial intermediation, banks are important in that they help create a medium of exchange.
 - All of the above are correct.
26. Which of the following equations represents GDP for a closed economy?
- $I = Y - C + G$
 - $S = I - G$
 - $Y = C + I + G$
 - $Y = C + I + G + T$
27. Which of the following entities actually executes open-market operations?
- the Board of Governors
 - the Federal Open Market Committee
 - the New York Federal Reserve Bank
 - the Open Market Committees of the regional Federal Reserve Banks
28. Which of the following statements about GDP is correct?
- Nominal GDP values production at current prices, whereas real GDP values production at constant prices.
 - Nominal GDP consistently underestimates the value of production, whereas real GDP consistently overestimates the value of production.
 - Nominal GDP values production at constant prices, whereas real GDP values production at current prices.
 - Nominal GDP values production at market prices, whereas real GDP values production at the cost of the resources used in the production process.

Figure 4

29. Refer to Figure 4. At the equilibrium wage, how many workers are employed?
- 9000
 - 5000
 - 1000
 - 0
30. Which of the following terms do we use to mean the same thing as *physical capital*?
- capital
 - manual labor
 - factor of production
 - assembly line
31. Suppose that in a country people gain more confidence in the banking system and so hold relatively less currency and more deposits. As a result, bank reserves will
- decrease and the money supply will eventually increase.
 - increase and the money supply will eventually increase.
 - decrease and the money supply will eventually decrease.
 - increase and the money supply will eventually decrease.

Table 1

2003 Labor Data for Adults (age 16 and older) in Meditor

Males not in labor force	45 million
Females not in labor force	35 million
Males unemployed	5 million
Females unemployed	5 million
Males employed	85 million
Females employed	65 million

32. **Refer to Table 1.** What is the adult female labor force in Meditor?
- 100 million
 - 40 million
 - 70 million
 - 65 million
33. Suppose the economy is closed and consumption is 6,500, taxes are 1,500, and government purchases are 2,000. If national saving amounts to 1,000, then what is GDP?
- 10,000
 - 10,500
 - 9,500
 - None of the above is correct.