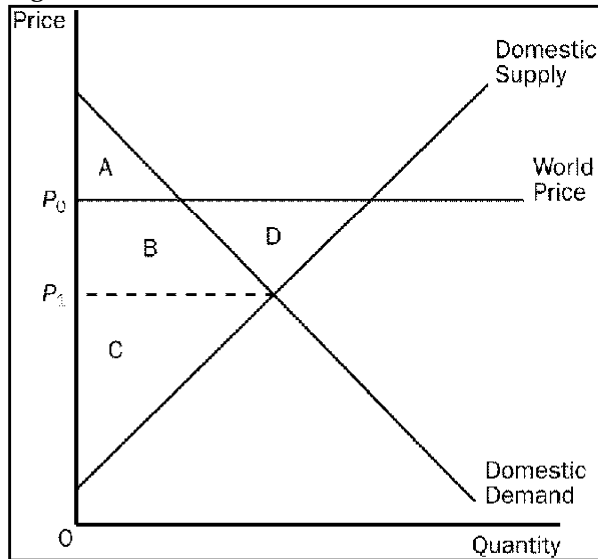


**Exam 02 - ECON 2301-05 - Wednesday, November 3****Multiple Choice**

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

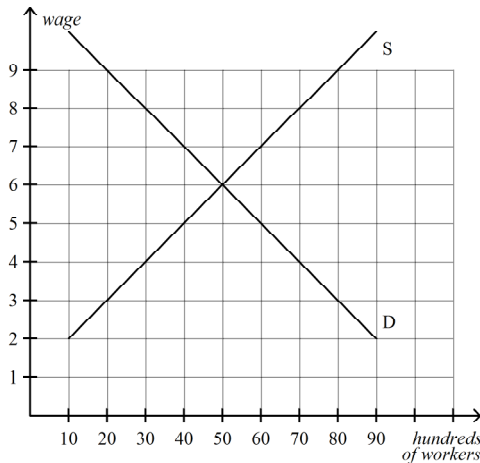
1. Suppose the economy is closed and consumption is 6,500, taxes are 1,500, and government purchases are 2,000. If national saving amounts to 1,000, then what is GDP?
  - a. 10,000
  - b. 10,500
  - c. 9,500
  - d. None of the above is correct.
2. M1 includes
  - a. travelers' checks.
  - b. currency.
  - c. demand deposits.
  - d. All of the above are correct.
3. The consumer price index tries to gauge how much incomes must rise to maintain
  - a. a decreasing standard of living.
  - b. an increasing standard of living.
  - c. a constant standard of living.
  - d. the highest standard of living possible.
4. Jouke is on a temporary layoff from his factory job. The Bureau of Labor Statistics counts Jouke as
  - a. employed and not in the labor force.
  - b. unemployed and not in the labor force.
  - c. unemployed and in the labor force.
  - d. employed and in the labor force.
5. Which of the following statements about *mutual funds* is correct?
  - a. People who buy shares from a mutual fund accept all of the risk and return associated with the mutual fund's portfolio.
  - b. A mutual fund acquires its funds primarily by selling shares to the public.
  - c. A mutual fund is a financial intermediary.
  - d. All of the above are correct.
6. Which of the following equations represents GDP for a closed economy?
  - a.  $Y = C + I + G + T$
  - b.  $S = I - G$
  - c.  $I = Y - C + G$
  - d.  $Y = C + I + G$
7. If the nominal interest rate is 4 percent and the real interest rate is -2.5 percent, then the inflation rate is
  - a. -6.5 percent.
  - b. -1.5 percent.
  - c. 1.5 percent.
  - d. 6.5 percent.

8. The assumption of a *closed economy*
- applies to most national economies.
  - applies to the world economy.
  - requires us to assume that the government's budget is always balanced.
  - All of the above are correct.

**Figure 3**

9. **Refer to Figure 3.** Consumer surplus in this market after trade is
- A.
  - A + B.
  - C.
  - A + B + D.
10. 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
- neither the price of apples nor the price of pears changes from year to year.
  - the percentage change in the price of apples is equal to the percentage change in the price of pears from year to year.
  - the number of apples bought by the typical consumer is equal to the number of pears bought by the typical consumer in each year.
  - neither the number of apples nor the number of pears bought by the typical consumer changes from year to year.
11. If an economy used gold as money, its money would be
- functioning as a store of value and as a unit of account, but not as a medium of exchange.
  - fiat money, but not commodity money.
  - commodity money, but not fiat money.
  - both fiat and commodity money.

12. Which of the following terms do we use to mean the same thing as *physical capital*?
  - a. assembly line
  - b. capital
  - c. manual labor
  - d. factor of production
13. Which of the following is *not* correct?
  - a. The unemployment rate is an imperfect measure of a nation's overall level of economic well-being.
  - b. Most economists agree that eliminating unemployment insurance would increase the nation's overall level of 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.
14. The amount of deadweight loss that results from a tax of a given size is determined by
  - a. whether the tax is levied on buyers or sellers.
  - b. the ratio of the tax per unit to the effective price received by sellers.
  - c. the price elasticities of demand and supply.
  - d. the number of buyers in the market relative to the number of sellers.
15. In addition to
  - a. performing financial intermediation, banks are important in that they help create a medium of exchange.
  - b. serving as financial markets, mutual funds are important in that they help create a store of value.
  - c. serving as stores of value, stocks and bonds also serve as media of exchange.
  - d. All of the above are correct.

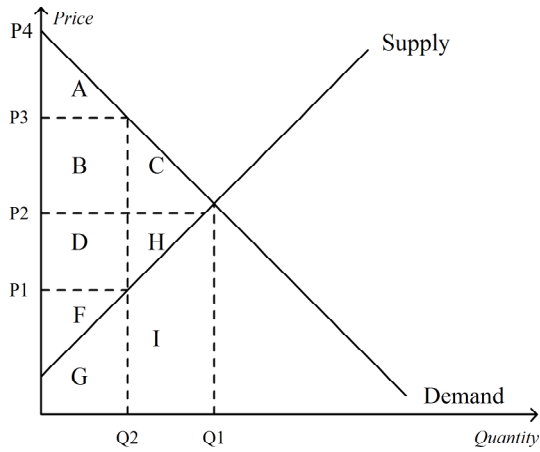
**Figure 4**

16. **Refer to Figure 4.** At the equilibrium wage, how many workers are employed?
- 5000
  - 9000
  - 1000
  - 0
17. Frictional unemployment is
- not inevitable; rather, it could be reduced to zero if by the elimination of unemployment insurance.
  - inevitable, because at any given time, jobs are being created in some firms and destroyed in other firms.
  - not inevitable; rather, it can be reduced to zero by well-designed public policies.
  - inevitable, because in some industries, wages are always set above the level that brings supply and demand into equilibrium.
18. Which of the following statements about GDP is correct?
- 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.
  - Nominal GDP consistently underestimates the value of production, whereas real GDP consistently overestimates the value of production.
  - Nominal GDP values production at current prices, whereas real GDP values production at constant prices.
19. Which of the following is consistent with the catch-up effect?
- The United States had a higher growth rate before 1900 than after.
  - After World War II the United States had lower growth rates than war-ravaged European countries.
  - Although the United States has a relatively high level of output per person, its growth rate is rather modest compared to some countries.
  - All of the above are correct.

20. The Bureau of Labor Statistics produces data on
  - a. length of the average workweek.
  - b. types of employment.
  - c. unemployment.
  - d. All of the above are correct.
21. Educated people may generate ideas that increase production. These ideas
  - a. produce a return to society from education that is greater than the return to the individual.
  - b. are external benefits of education.
  - c. could justify government subsidies for education.
  - d. All of the above are correct.
22. If the reserve ratio is 10 percent, the money multiplier is
  - a. 10.
  - b. 100.
  - c. 9/10.
  - d. 1/10.
23. The price of a good that prevails in a world market is called the
  - a. comparative price.
  - b. relative price.
  - c. absolute price.
  - d. world price.
24. Which of the following entities actually executes open-market operations?
  - a. the Federal Open Market Committee
  - b. the Open Market Committees of the regional Federal Reserve Banks
  - c. the Board of Governors
  - d. the New York Federal Reserve Bank
25. Deadweight loss measures the loss
  - a. in revenue to the government when buyers choose to buy less of the product because of the tax.
  - b. in a market to buyers and sellers that is not offset by an increase in government revenue.
  - c. of equality in a market due to government intervention.
  - d. of total revenue to business firms due to the price wedge caused by the tax.
26. 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 is greater than Emerson's but his output is less.
  - b. Waldo's productivity and output are greater than Emerson's.
  - c. Emerson's productivity and output are greater than Waldo's.
  - d. Emerson's productivity is greater than Waldo's but his output is less.
27. When a tax is levied on a good,
  - a. only sellers are made worse off.
  - b. neither buyers nor sellers are made worse off.
  - c. both buyers and sellers are made worse off.
  - d. only buyers are made worse off.

**Figure 1**

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



28. Refer to Figure 1. After the tax is levied, consumer surplus is represented by area
- $A+B+C$ .
  - F.
  - A.
  - $D+H+F$ .

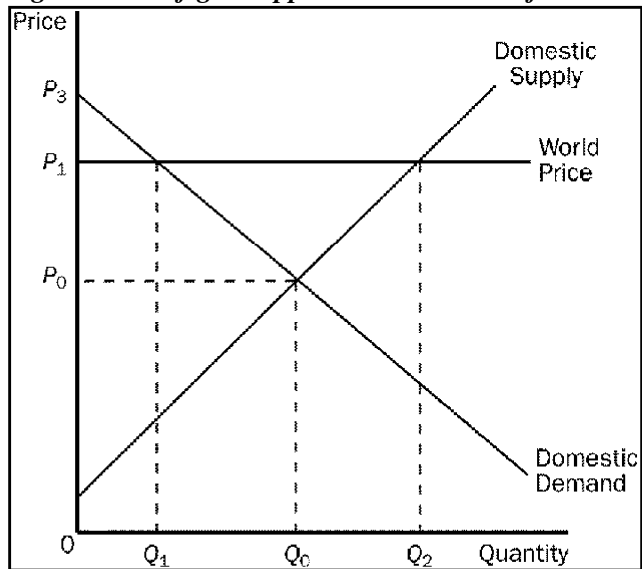
**Table 1**

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

29. Refer to Table 1. What is the adult female labor force in Meditor?
- 40 million
  - 65 million
  - 70 million
  - 100 million

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



30. Refer to Figure 2. With trade, Wales
  - a. exports  $Q_2 - Q_0$  units of cheese.
  - b. imports  $Q_2 - Q_1$  units of cheese.
  - c. exports  $Q_2 - Q_1$  units of cheese.
  - d. imports  $Q_2 - Q_0$  units of cheese.
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
  - a. decrease and the money supply will eventually decrease.
  - b. decrease and the money supply will eventually increase.
  - c. increase and the money supply will eventually increase.
  - d. increase and the money supply will eventually decrease.
32. 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. decrease by \$20 million and the money supply eventually increases by \$250 million.
  - b. decrease by \$20 million and the money supply eventually decreases by \$250 million.
  - c. increase by \$20 million and the money supply eventually increases by \$250 million.
  - d. increase by \$20 million and the money supply eventually decreases by \$250 million.
33. Which of the following would be considered physical capital?
  - a. a taxi-cab driver's knowledge of the fastest routes to take
  - b. bulldozers, backhoes and other construction equipment
  - c. the available knowledge on how to make semiconductors
  - d. All of the above are correct.