Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Exam II: ECO Principles of Macroeconomics

Date: Tuesday 6, 2021

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PART I:

1. Use blue or black pen only
2. Place your answers in the scantron box provided to you in the answer sheet
3. You can place X or a check mark in the box of your choice
4. After you finish part I you need to do part II of the exam

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1. ​Macroeconomics is a branch of economics that studies:

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|  | a. | ​the different costs associated with production. |
|  | b. | ​the price and output decisions made by different industries. |
|  | c. | ​the overall performance of the economy. |
|  | d. | ​the role of a market in determining an efficient outcome. |
|  | e. | ​the role of input suppliers in determining the price and quantity of output. |

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2. ​The ultimate objective of macroeconomics is to:

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|  | a. | ​reduce the unemployment rate in an economy. |
|  | b. | ​stabilize the growth rate in an economy. |
|  | c. | ​develop and test theories about how the overall economy works. |
|  | d. | ​improve the international competitiveness of U.S. financial markets. |
|  | e. | ​maximize the efficiency of government intervention in the marketplace. |

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| 3. ​Which of the following variables is measured only at a particular point in time and not over different time periods?   |  |  |  | | --- | --- | --- | |  | a. | ​The unemployment rate | |  | b. | ​Consumer income | |  | c. | ​The federal government's debt | |  | d. | ​The federal government's budget deficit | |  | e. | ​Total expenditure |  |  |  | | --- | --- | |  |  | |  |
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4. ​The market value of all final goods and services produced in a nation during a particular period is called the:

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|  | a. | ​gross domestic product. |
|  | b. | ​net national product. |
|  | c. | ​national income. |
|  | d. | ​gross national product. |
|  | e. | ​gross world product. |

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5. ​Which of these is true of the mercantilism policy?

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|  | a. |  | ​It accepts gold as a medium of exchange. |
|  | b. |  | ​It encourages free movement of labor and capital resources between nations. |
|  | c. |  | ​It emphasizes government control over the production of important goods and services. |
|  | d. |  | ​It emphasizes the importance of trade restrictions in achieving economic growth. |
|  | e. |  | ​It believes that a nation’s economic vitality depends on its unemployment level. |

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6. ​A recession is best defined as a period during which:

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|  | a. | ​the percentage of the population employed increases. |
|  | b. | ​employment, output, and income decrease. |
|  | c. | ​the average price level in an economy decreases. |
|  | d. | ​the usage of labor and capital resources increases. |
|  | e. | ​budget deficit and trade deficit decrease. |

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7. ​Economic activities that signal forthcoming changes in the economy are referred to as:

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|  | a. | ​coincidental economic indicators. |
|  | b. | ​GDP implicit price deflators. |
|  | c. | ​lagging economic indicators. |
|  | d. | ​perfect economic indicators. |
|  | e. | ​leading economic indicators. |

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8. ​The aggregate demand curve for an economy depicts the:

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|  | a. | ​quantity of goods and services demanded during a given time period at different interest rates, other things held constant. |
|  | b. | ​quantity of goods and services demanded at different price levels during different time periods, other things held constant. |
|  | c. | ​quantity of goods and services demanded at different price levels during a given time period, other things held constant. |
|  | d. | ​quantity of goods and services that the economy is capable of producing during a given time period, other things held constant. |
|  | e. | ​final quantity of goods and services actually produced by the economy during a given time period, other things held constant. |

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  |  |  |  | | --- | --- | --- | |  | a. | ​A decrease in investment spending | |  | b. | ​An increase in the rate of inflation | |  | c. | ​An increase in unemployment | |  | d. | ​A decrease in the rate of inflation | |  | e. | ​A decrease in real GDP |  |  |  | | --- | --- | |  |  | |  |  |   12. ​Which of these is most likely to result when a demand-management policy is used in an economy that is experiencing stagflation?   |  |  |  | | --- | --- | --- | |  | a. | ​A decrease in investment spending | |  | b. | ​An increase in the rate of inflation | |  | c. | ​An increase in unemployment | |  | d. | ​A decrease in the rate of inflation | |  | e. | ​A decrease in real GDP |  |  |  | | --- | --- | |  |  | |  | |  |  | |  |  | | 13. ​\_\_\_\_\_ is measured in terms of current-year prices.   |  |  |  | | --- | --- | --- | |  | a. | ​Nominal gross domestic product (GDP) | |  | b. | ​GDP price index | |  | c. | ​Real gross domestic product (GDP) | |  | d. | ​Arbitrage | |  | e. | ​Depreciation |  |  |  | | --- | --- | |  |  | | 14. ​If the real gross domestic product (GDP) for the base year is $3 trillion, then the nominal gross domestic product (GDP) for that year is \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | ​−$.03 trillion | |  | b. | ​$0.3 trillion | |  | c. | ​$3 trillion | |  | d. | ​$30 trillion | |  | e. | ​$300 trillion |  |  |  | | --- | --- | |  |  |   15. ​The table below shows the price indexes and the nominal gross domestic product (GDP) for an economy from 2001 to 2005. The real GDP \_\_\_\_\_ between 2004 and 2005.  ​  **Table 6.3**  ​   |  |  |  | | --- | --- | --- | | Year | Price Index | Nominal GDP | | 2001 | 100 | $95billion | | 2002 | 105 | $110billion | | 2003 | 110 | $120billion | | 2004 | 120 | $125billion | | 2005 | 132 | $137.5 billion |   ​   |  |  |  | | --- | --- | --- | |  | a. | ​increased by about $5 billion | |  | b. | ​decreased by about $5 billion | |  | c. | ​remained almost constant | |  | d. | ​increased by about $2 billion | |  | e. | ​decreased by about $2 billion |  |  |  | | --- | --- | |  |  |   16. ​In order to convert nominal gross domestic product (GDP) to real gross domestic product (GDP), we must divide:   |  |  |  | | --- | --- | --- | |  | a. | ​real GDP by the price index. | |  | b. | ​nominal GDP by the price index. | |  | c. | ​the price index by nominal GDP. | |  | d. | ​the price index by real GDP. | |  | e. | ​nominal GDP by 100. |  |  |  | | --- | --- | |  |  | |  |  | |  |   17. ​If the consumer price index (CPI) this year is 162 and last year it was 170, the inflation rate   |  |  |  | | --- | --- | --- | |  | a. | ​is positive. | |  | b. | ​is negative. | |  | c. | ​has decreased since last year. | |  | d. | ​has increased since last year. | |  | e. | ​is the same as last year. |  |  |  | | --- | --- | |  |  |   18. ​The base year for a price index is the year\_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | ​in which prices were lowest | |  | b. | ​in which prices were highest | |  | c. | ​in which real output was the largest | |  | d. | ​in which prices were stable | |  | e. | ​that serves as a reference point |  |  |  | | --- | --- | |  |  |   19. ​Nominal gross domestic product (GDP) is measured in terms of the \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | ​current-year prices | |  | b. | ​base-year prices | |  | c. | ​export of goods and services | |  | d. | ​amount of taxes collected | |  | e. | ​hours of employment |  |  |  | | --- | --- | |  |  | |  |  |   20. ​Which of the following is not a component of aggregate expenditure?   |  |  |  | | --- | --- | --- | |  | a. | ​Consumption expenditures | |  | b. | ​Investment | |  | c. | ​Imports | |  | d. | ​Rent | |  | e. | ​Government purchases |  |  |  | | --- | --- | |  |  | |  |  |   21. ​Net exports equals \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | ​the value of exports minus the value of imports | |  | b. | ​the value of imports minus the value of exports | |  | c. | ​the value of imports minus tariffs | |  | d. | ​the value of exports minus tariffs | |  | e. | ​the value of exports plus the value of imports minus depreciation |  |  |  | | --- | --- | |  |  |   22. ​The gross domestic product (GDP) excludes:   |  |  |  | | --- | --- | --- | |  | a. | ​the value of a new building. | |  | b. | ​the value of new stocks and shares. | |  | c. | ​the cost of a new vending machine. | |  | d. | ​government expenditure on a new bridge. | |  | e. | ​the money spent on the purchase of legal services by a household. |  |  |  | | --- | --- | | *ANSWER:* | b | |  | | |  |

23. ​Consider an economy made up of 100 people, 60 of whom hold jobs, 10 of whom are looking for work, and 15 of whom are retired. The number of unemployed persons is \_\_\_\_\_.

|  |  |  |
| --- | --- | --- |
|  | a. | ​10 |
|  | b. | ​15 |
|  | c. | ​40 |
|  | d. | ​30 |
|  | e. | ​90 |

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24. ​Raul borrowed $1,000 from Marta for a year and agreed to repay her $1,050 at the end of the year. If the inflation rate was 3 percent, which of the following is the real rate of interest Marta received?

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| --- | --- | --- |
|  | a. | ​10 percent |
|  | b. | ​5 percent |
|  | c. | ​3 percent |
|  | d. | ​2 percent |
|  | e. | ​−2 percent |

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25. ​If the nominal interest rate is 5 percent and there is no inflation, \_\_\_\_\_.

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|  | a. | ​the real interest rate exceeds 5 percent |
|  | b. | ​the real interest rate is less than 5 percent |
|  | c. | ​the real interest rate is 5 percent |
|  | d. | ​there is not enough information to determine the real interest rate |
|  | e. | ​the real interest rate is zero |

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26. ​The nominal interest rate:

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|  |  | a. | ​varies directly with the rate of expected inflation in an economy. |
|  |  | b. | ​is the interest rate expressed in dollars of constant purchasing power. |
|  |  | c. | ​equals the difference between the real interest rate and the inflation rate. |
|  |  | d. | ​is the basis for decisions taken by the lenders and the borrowers in an economy. |
|  |  | e. | ​is the percentage increase in the average price level from one year to the next. |

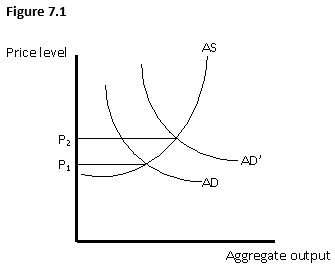
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27. ​Suppose an economy had an inflation rate of 7 percent last year. This has decreased to 6 percent this year. This means that the economy is:

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|  | a. | ​suffering from hyperinflation. |
|  | b. | ​experiencing deflation. |
|  | c. | ​experiencing disinflation. |
|  | d. | ​experiencing a wage-price spiral. |
|  | e. | ​experiencing a decrease in real wage. |

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| 28. ​One of the most widely reported measures of inflation is the:   |  |  |  | | --- | --- | --- | |  | a. | ​consumer price index. | |  | b. | ​producer price index. | |  | c. | ​GDP deflator. | |  | d. | ​Gini coefficient. | |  | e. | ​real interest rate. |  |  |  | | --- | --- | |  |  | |  |

29. ​The following image shows the aggregate demand and aggregate supply curves of an economy. In the graph below, the rise in the price levels from P1 to P2 is a result of:



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|  | a. | ​cost-pull inflation. |
|  | b. | ​cost-push inflation. |
|  | c. | ​demand-push inflation. |
|  | d. | ​demand-pull inflation. |
|  | e. | ​induced inflation. |

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30. ​An increase in unemployment benefits is likely to:

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|  | a. | ​reduce a person's incentive to look for work. |
|  | b. | ​reduce the opportunity cost of remaining employed. |
|  | c. | ​provide a better safety net for employed families. |
|  | d. | ​decrease the tax imposed on consumers. |
|  | e. | ​increase the need to accept the first job available after becoming unemployed. |

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31. ​Jacqueline has a Ph.D. in economics. She has turned down many job offers because she eventually hopes to teach at one of the top ten universities in her field. The type of unemployment she is experiencing is:

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| --- | --- | --- |
|  | a. | ​frictional unemployment. |
|  | b. | ​structural unemployment. |
|  | c. | ​seasonal unemployment. |
|  | d. | ​cyclical unemployment. |
|  | e. | ​underemployment. |

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32. ​Consider an economy with an adult population of 100, 50 of whom hold jobs, 10 of whom are looking for work, and 15 of whom are retired. The labor force participation rate is \_\_\_\_\_.

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| --- | --- | --- |
|  | a. | ​100 percent |
|  | b. | ​60 percent |
|  | c. | ​50 percent |
|  | d. | ​40 percent |
|  | e. | ​10 percent |

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33. ​The rules of the game refer to:

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|  | a. | ​any factor that facilitates production and exchange, such as tax laws and property rights. |
|  | b. | ​a gradual but consistent change in the price level until a fair price is attained. |
|  | c. | ​the set of election laws that ensure that all elections are fair. |
|  | d. | ​the rules that a firm must follow in order to earn a profit. |
|  | e. | ​the requirement that households must supply labor to firms. |

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34. ​Which of the following countries has the highest output per capita?

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|  | a. | ​The United Kingdom |
|  | b. | ​The United States |
|  | c. | ​France |
|  | d. | ​Italy |
|  | e. | ​Germany |

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35. ​The output per capita of a country is equal to \_\_\_\_\_.

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|  | a. | ​its population divided by its GDP |
|  | b. | ​its GDP divided by its population |
|  | c. | ​its population divided by its GNP |
|  | d. | ​its GNP divided by its population |
|  | e. | ​its GDP divided by the total value of capital available |

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| 36. ​Which of the following would increase labor productivity?   |  |  |  | | --- | --- | --- | |  | a. | ​A decrease in the amount of capital per unit of labor | |  | b. | ​A change in technology that improves the quality of capital | |  | c. | ​A decrease in the unemployment rate | |  | d. | ​An increase in the number of inexperienced workers entering the labor force | |  | e. | ​A decrease in the quality of capital |  |  |  | | --- | --- | |  |  | |  |

37. ​An economy’s standard of living grows over the long run because of:

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| --- | --- | --- | --- |
|  |  | a. | ​better protection of domestic industries from foreign competition. |
|  |  | b. | ​centralized planning and decision making. |
|  |  | c. | ​technological improvements. |
|  |  | d. | ​stringent foreign trade policies. |
|  |  | e. | ​high growth rate of population. |

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38. ​Capital deepening refers to:

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|  | a. | ​an increase in the amount of capital per worker. |
|  | b. | ​an increase in the amount of workers per unit of capital. |
|  | c. | ​a decrease in the amount of capital per unit of output. |
|  | d. | ​an increase in the amount of output per unit of capital. |
|  | e. | ​an increase in the productivity of capital. |

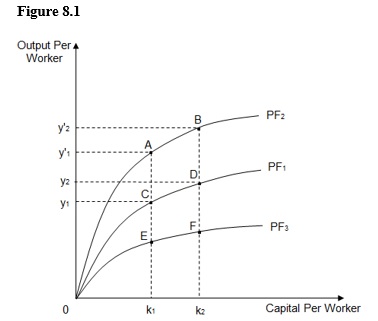
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39. ​If a nation moves upward along its per-worker production function relating output per worker to capital per worker, then:

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|  | a. | ​labor productivity rises. |
|  | b. | ​labor productivity falls. |
|  | c. | ​the amount of capital decreases, other things constant. |
|  | d. | ​labor input decreases. |
|  | e. | ​the productivity of capital rises. |

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40. ​The figure below shows three different per-worker production functions: PF1, PF2, and PF3. If PF1 is the initial per-worker production function, which of the following reflects the impact of an increase in the level of technology?



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| --- | --- | --- |
|  | a. | ​A movement from point D to point C |
|  | b. | ​An upward shift from PF1 to PF2 |
|  | c. | ​A downward shift from PF1 to PF3 |
|  | d. | ​A movement from point C to point D |
|  | e. | ​A movement from point D to point F |

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# Part II: Macroeconomics

**Name:**

**==========================================================================**

**You must show your work to get credit.**

1. Compute the value added at the different stages of productions of the flour.

**Stage of Production Sale Price Value Added**

Farmer $0.30

Miller $0.50

Wholesaler $1.00

Grocer $1.50

1. (*Expenditure Approach to GDP*) Given the following annual information about a hypothetical country, answer questions a through d.

**Billions of Dollars**

Personal consumption expenditures $200

Personal taxes  50

Exports 30

Depreciation  10

Government purchases 50

Gross private domestic investment  40

Imports   40

Government transfer payments  20

1. What is the value of GDP?
2. What is the value of net domestic product?
3. What is the value of net investment?
4. What is the value of net exports?