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**ECON 212 – Principles of Economics II**  
**Problem Set 1**

**LONG QUESTIONS:**

1) Suppose that a very simple economy produces only the following three final goods and services: pizzas, clothes, and haircut. Information on population, nominal prices and total output for each good and services in the years 2010 and 2020 is given below.

	<b>2010</b>		<b>2020</b>	
	Population: 60 million		Population: 80 million	
	<b>Per unit price (\$)</b>	<b>Output (in millions)</b>	<b>Per unit price (\$)</b>	<b>Output (in millions)</b>
<b>Pizzas</b>	4.00	10	5.00	12
<b>Clothes</b>	10.00	5	12.00	5
<b>Haircut</b>	6.00	2	8.00	4

a)  $(10.000.000 \times 4.00) + (10.00 \times 5.000.000) + (2.000.000 \times 6.00) = 102.000.000$  million \$.

b)  $(12.000.000 \times 5.00) + (5.000.000 \times 12.00) + (4.000.000 \times 8.00) = 152.000.000$  million \$.

c) Real GDP for 2010 = 102.000.000 million \$.

Real GDP for 2020 =  $(12.000.000 \times 4.00) + (5.000.000 \times 10.00) + (4.000.000 \times 6.00)$   
= 122.000.000 million \$.

d)  $(122.000.000 - 102.000.000) / (102.000.000) = 19.6\%$  growth rate of Real GDP

e) Since Real GDP per capita has decreased, standard of living is also decreased.

2) What is the difference between the Long Run and Short Run frameworks?

**The difference between the long-run and short-run frameworks is that the long-run framework focuses on demand while the short-run framework focuses on supply.**

3) What is unemployment rate?

**number of people actively looking for a job as a percentage of the labour force**

4) What is target rate of unemployment?

**absolute lowest possible rate of unemployment that can be achieved in any economy.**

5) How is the target rate of unemployment related to potential output?

**Potential output measures the productive capacity of the economy when unemployment is at its natural rate**

### MULTIPLE CHOICE QUESTIONS:

- 1) During a business cycle expansion, total production \_\_\_\_\_ and total employment \_\_\_\_\_.  
A) increases, increases  
B) decreases, increases  
C) increases, decreases  
D) decreases, decrease
- 2) Gross domestic product is calculated by summing up  
A) the total quantity of goods and services in the economy.  
B) the total market value of goods and services in the economy.  
C) the total market value of final goods and services produced in the economy during a period of time.  
D) the total quantity of goods and services produced in the economy during a period of time.
- 3) In the circular flow model, the value of total production for an economy \_\_\_\_\_ the value of total expenditures on final goods and services.  
A) is greater than  
B) is less than  
C) may be greater than or less than  
D) equals
- 4) The purchase by a foreign government of an airplane produced in the United States is included in U.S.  
A) investment expenditures.  
B) net exports.  
C) government purchases.  
D) consumption expenditures.

Consider the table below showing three stages of production of an automobile.

Stage of Production	Seller	Buyer	Price
1	Steel mill	Auto manufacturer	\$12,000
2	Auto manufacturer	Auto dealer	\$22,000
3	Auto dealer	Consumer	\$30,000

- 5) Refer to table above. The value added by the automobile dealer equals  
A) \$8,000.  
B) \$10,000.  
C) \$22,000.  
D) \$30,000.
- 6) Refer to table above. The value of each automobile in gross domestic product equals  
A) \$8,000.  
B) \$10,000.  
C) \$22,000.  
D) \$30,000.

7) Legalizing all forms of illegal activities

- A) reduces GDP and the size of the underground economy.
- B) increases GDP and increases the size of the underground economy.
- C) reduces GDP and increases the size of the underground economy.
- D) increases GDP and reduces the size of the underground economy.

8) Nominal GDP is GDP in a given year

- A) valued in the prices of the base year.
- B) adjusted for anticipated inflation.
- C) valued in the prices of that year.
- D) adjusted for inflation.

9) Real GDP is GDP in a given year

- A) adjusted only for anticipated inflation.
- B) valued in the prices of the base year.
- C) adjusted only for unanticipated inflation.
- D) valued in the prices of that year.

10) The GDP deflator is a measure of the

- A) average level of prices of final goods and services in the economy.
- B) average level of prices of intermediate goods and services in the economy.
- C) total production of the economy unadjusted for inflation.
- D) total production of the economy adjusted for inflation.

11) Which one is the definition of structural unemployment?

- A) unemployment caused by the institutional structure of an economy or by economic restructuring making some skills obsolete
- B) unemployment that occurs during recessions and depressions.
- C) The percentage of people in the economy who are both able to and looking for work but who cannot find jobs
- D) Unemployment caused by people entering the job market and people quitting a job just long enough to look for and find another one

12) The term business cycle refers to the

- A) short-term ups and downs in the price level.
- B) long-term trends in the price level.
- C) short-term ups and downs in the level of economic activity.
- D) long-term trends in the level of economic activity.

13) The labor force equals the number of people

- A) employed plus unemployed.
- B) employed.
- C) unemployed.

D) in the working-age population.

**14) Cyclical unemployment is the result of**

A) the ups and downs in inflation.

B) a persistent mismatch between the skills and characteristics of workers and the requirements of the jobs.

C) the search process of matching workers with jobs.

D) a slowdown in the economy.

**15) In calculating GDP:**

A) both exports and imports are added

B) neither exports nor imports are added

C) exports are added and imports are subtracted

D) imports are added and exports are subtracted

**16) What is value added?**

A) Value added refers to goods that are produced by one firm for use in further processing by another firm.

B) Value added is the difference between the value of goods as they leave a stage of production and the cost of the goods as they entered that stage.

C) Value added is data collected and published by the government describing the various components of national income and output in the economy.

D) Value added refers to goods and services produced for final use.

**17) An Italian company opens a pasta company in the U.S. The profits from this pasta company are included in**

A) both U.S. and Italian GNP.

B) both U.S. and Italian GDP.

C) U.S. GDP and Italian GNP.

D) U.S. GNP and Italian GDP.

**18) Double counting can be avoided by**

A) including the value of intermediate goods in the current year.

B) not counting the value of intermediate goods in GDP.

C) including the value of intermediate goods in the GNP but not in the GDP.

D) including the value of intermediate goods in the production year but not in the selling year of those goods.

**19) Which of the following is included in both the U.S. GDP and GNP?**

A) The value of all cars produced by Ford in Mexico.

B) The value of all cars produced by General Motors in the U.S.

C) The value of all cars produced by Toyota in the U.S.

D) The value of cars produced by Nissan in Japan and the U.S.

**20) Depreciation is**

- A) the decrease in the overall price level.
- B) the additional capital stock in a year.
- C) the amount of used up machinery in a year.**
- D) the amount of decline in business inventories.