Notes:

1. This was an online final exam, therefore, it is longer and somewhat more difficult than the “face to face” final exam you will have on January 25 2023.

2. This semester I did not talk about “price controls and their effect on welfare” Therefore, please ignore any question that mentions “price ceilings”, “price floors”, minimum or maximum prices; you don’t need to study that part.

Question 1 was intended as a joke but few thought it was funny. My mistake. Everyone got full marks.

I here renumber it as question 0

1 There are four buyers in a competitive market, each one will buy at most one unit. The WtP of each buyer is as follows: buyer A: $101, buyer B: $91, buyer C: $81, and buyer D: $71. Which of the below can be the equilibrium?

a Equilibrium price = $80, equilibrium quantity = 4 units

b Equilibrium price = $60, equilibrium quantity = 3 units

c Equilibrium price = $80, equilibrium quantity = 3 units

d Equilibrium price = $90, equilibrium quantity = 3 units

e Any of the above can be the equilibrium price depending on the supply.

ANS: C

2 Which of the below best fills the blank in this comment on one of the assumptions that define the perfectly competitive market? ''The assumption that \_\_\_\_\_\_\_\_\_\_ is unrealistic. Common experience tells us that in most cases, a seller does not lose all his trade instantly when he raises his price only a little, many customers will still prefer to trade with him because they live nearer to his store than to the others, or because his way of doing business is more to their liking, or because he sells other items which they desire, or because of some difference in service or quality, or for a combination of reasons.''

a all firms produce an identical product in a competitive market

b there are many firms in a competitive market

c in a competitive market each seller has a negligible (very small, almost none) effect on the market price

d a lower quantity will be demanded when the market price goes up

e the price is determined by the interaction of demand and supply in a competitive market

ANS: A

3 Three little words. Often that is all it takes to make one's heart beat faster. ''Liberty, equality, fraternity'' captured the French Revolution. ''I love you'' supports many a successful relationship. ''Life, liberty, happiness'' are at the heart of the U.S. Declaration of Independence. For many economists, those three magic words are \_\_\_\_\_\_.

a ''supply, demand, price''

b ''total surplus maximization''

c ''GDP, CPI, and LFPR''

d ''income equals expenditure''

e ''firms maximize profits''

ANS: A

4 In his 1932 essay ''An Essay on the Nature and Significance of Economic Science'', Lionel Robbins wrote the following: ''Every act which involves time and scarce means for the achievement of one end involves the relinquishment (sacrifice) of their use for the achievement of another. It has an economic aspect.'' He is writing about\_\_\_\_\_\_. Later he gave his famous definition of economics in terms of methods used, rather than the subject matter it studies: ''The economist studies the disposal (the act of placing, distributing, or arranging especially in an orderly way) of scarce means. He is interested in the way different degrees of scarcity of different goods give rise to different ratios of valuation between them and he is interested in the way in which changes in ends or changes in means, from the demand side or the supply side, affect these ratios. Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative use''. This can be summarized as ''\_\_\_\_\_.''

a Opportunity cost, economics is the study of how people make choices under conditions of scarcity

b Opportunity cost, people respond to incentive

c Sunk cost, economics assumes that people are rational

d Incentives, economics is the study of how people make choices under conditions of scarcity

e Opportunity cost, rational people think at the margin

ANS: A

5 The question ''what is economics?'' is not easy to answer, partly because economics is potentially very broad. Indeed, it has become increasingly broad over the past 200 years. Attempts to identify the subject in a few words are thus almost certainly doomed to failure. Which of the below agrees that it is hopeless to try to give an answer?

a Adam Smith, who in 1776 wrote: ''Economics is the science which inquires in to the nature and causes of wealth of nations.''

b Alfred Marshall, who in 1890 wrote: ''Economics is a study of mankind in the ordinary business of life, it examines that part of individual and social action which is most closely connected with the attainment and with the use of material requisites (requirements) of well-being.''

c Lionel Robbins, who in 1932 wrote: ''Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses.''

d Paul Samuelson, who in 1942 wrote: ''Economics is the study of how men and society choose with or without the use of money, to employ the scarce productive resources which have alternative uses, to produce various commodities overtime and distribute them for consumption now and in future among various people and groups of society. It analyses the costs and benefits of improving pattern of resource allocation.''

e Jacob Viner, who in 1932 (or in 1933!) said: ''Economics is what economists do.'' [The statement is not to be found in his publications, but a remark by Kenneth Boulding, a student of his in 1932-3, suggests that it came up in conversation.]

ANS: E

6 About a month ago you have purchased a ticket to see the Eric Clapton concert. The opportunity cost of seeing Eric Clapton depends on

a how much you paid for the ticket a month ago

b the resale value of the ticket now

c how much you like Clapton

d none of the above

e all of the above

ANS: B

7 ''There is no such thing as a free market.'' This is the title of the first chapter (or Thing 1, as he calls it) of the excellent and very readable book ''23 Things They Don’t Tell You About Capitalism'' by Ha-Joon Chang. In that chapter he writes: ''The free market doesn't exist. Every market has some rules and boundaries that restrict freedom of choice. A market looks free only because we so unconditionally accept its underlying restrictions that we fail to see them. The claim by free-market economists that they are trying to defend the market from politically motivated interference by the government is false. Government is always involved, and those free-marketeers are as politically motivated as anyone. Overcoming the myth that there is such a thing as an objectively defined 'free market' is the first step towards understanding the capitalist economy.'' Which of the following is least relevant in supporting Ha-Joon Chang's claim that markets are not free?

a When environmental regulations (e.g., regulations on car and factory emissions) appeared a few decades ago, they were opposed by many as serious violations on our freedom to choose. Their opponents asked: if people want to drive in more polluting cars or if factories find more polluting production methods more profitable, why should the government prevent them from making such choices?

b Cotton Factories Act of 1819 prevented cotton factories in England from employing children under 9. Older children (up to 16) would be restricted from working longer than twelve hours a day. The law was limited to cotton producers, since their factories were especially unsafe to health. The proposal caused huge disagreement. Opponents saw it as weakening the sanctity of freedom of contract and thus destroying the very foundation of the free market. In debating this legislation, some members of the House of Lords objected to it on the grounds that 'labor ought to be free'. Their argument said: the children want (and need) to work, and the factory owners want to employ them, what is the problem?

c Then there are price regulations. The most visible examples are rent controls or minimum wage laws. But wages in rich countries are determined more by immigration control than anything else, including any minimum wage legislation. How is the immigration maximum determined? Not by the free labor market, which, if left alone, will end up replacing 80-90 per cent of native workers with cheaper, and often more productive, immigrants. Immigration is largely decided by politics. So, if you have any doubt left about the massive role that the government plays in the economy's free market, then pause to reflect that all our wages are, at root, politically determined.

d We see a regulation when we don't accept the moral values behind it. The nineteenth-century high-tariffs on free trade by the US federal government outraged slave-owners, who at the same time saw nothing wrong with trading people in a free market. To those who believed that people can be owned, not allowing trade in slaves was intolerable in the same way as restricting trade in manufactured goods.

e The employment effects of the minimum wage are much studied in economics. Until the early 1990s, the agreement among economists was that an increase in minimum wage has negative impact on employment. Since then, the empirical research by David Card, Lawrence Katz, and Alan Krueger introduced the era of 'new minimum research' by reporting quasi-experimental and econometric evidence on the question. Their finding was that minimum wage increases may not cause unemployment after all. Overall, most of the research available to date, and especially since the David Card and Alan Krueger's 1994 study, show that there is generally little to zero negative effect of minimum wage on employment.

ANS: E

8 ''One country may be more productive than others in all goods, in the sense that it can produce any good using fewer inputs (such as capital and labor) than other countries need to produce the same good. A country may be twice as productive as its trading partners in making clothing, but if it is three times as productive in building airplanes, it will benefit from importing clothes in exchange of exporting airplanes.'' This is most closely related to

a David Ricardo's theory of comparative advantage to explain gains from trade

b David Ricardo's theory of absolute advantage to explain gains from trade

c Adam Smith's theory of comparative advantage to explain gains from trade

d Adam Smith's theory of absolute advantage to explain gains from trade

e David Ricardo's theory of competitive advantage to explain gains from trade

ANS: A

9 Country A: One hour of labor can produce either three kilograms of steel or two shirts. Country B: One hour of labor can produce either one kilogram of steel or one shirt. Which of the following is true?

a Country A is more efficient in both products in the sense that it has an absolute advantage over country B in both goods.

b Country B is more efficient in both products in the sense that it has an absolute advantage over country A in both goods.

c Country A is more efficient in both products in the sense that it has a comparative advantage over country B in both goods.

d Country B is more efficient in both products in the sense that it has a comparative advantage over country A in both goods.

e Neither country is more efficient in both products in the sense that it has an absolute advantage over the other country.

ANS: A

10 Country A: One hour of labor can produce either three kilograms of steel or two shirts. Country B: One hour of labor can produce either one kilogram of steel or one shirt. Now suppose Country B offers to sell Country A two shirts in exchange for 2.5 kilograms of steel. To produce these additional two shirts, Country B diverts two hours of work from producing (two kilograms) steel. Country A diverts one hour of work from producing (two) shirts. It uses that hour of work to instead produce three additional kilograms of steel. Overall, \_\_\_\_\_\_\_\_\_ produced: Country A produces two fewer shirts, but Country B produces \_\_\_\_\_\_ additional shirt(s). However, \_\_\_\_\_\_ steel is now produced than before: Country A produces three additional kilograms of steel, while Country B reduces its steel output by \_\_\_\_\_ kilograms. \_\_\_\_\_\_\_\_\_\_\_ the gains from trade.

a the same number of shirts is, two, more, two, The extra kilogram of steel is a measure of

b fewer shirts are, one, more, two, There is an extra kilogram of steel but fewer shirts, therefore it is difficult to give a measure of

c a larger number of shirts is, three, more, two, The extra kilogram of steel and the additional shirt is a measure of

d the same number of shirts is, two, the same quantity of, three, The change in the production levels in these two countries is a measure of

e the same number of shirts is, two, more, two, The additional shirts produced by country B and the additional steel produced by country A is a measure of

ANS: A

11 Demand is the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a willingness to pay for a good

b ability to pay for a good

c needs and wants of consumers for a good

d the functional relationship between the quantity demanded and the price of a good

e quantity of a good that is available in the market.

ANS: D

12 A small decrease in the supply causes the price of tomatoes to increase, and people buy fewer onions. Assuming there is no change in the supply of onions, we can say that \_\_\_\_\_\_\_\_.

a people sure do behave in unpredictable ways

b onions and tomatoes are complement goods

c onions and tomatoes are substitute goods

d people's incomes have increased and both goods are normal goods

e people's incomes have decreased and both goods are inferior goods

ANS: B

13 The ice-cream market is in equilibrium. Which of the following will reduce the actual consumption of ice cream?

a A price floor on ice cream.

b Increased consumer fears about the danger of consuming too much sugar.

c A price ceiling on ice cream.

d A decrease in the price of frozen yogurt, (a substitute for ice cream)

e All of the above will reduce the actual consumption of ice cream.

ANS: E

14 A recent study conducted at the Anthony Quinn Institute for Advanced Studies determined that consumption of beets is good for your health. Using simple supply and demand analysis you predict that when the findings are published:

a The equilibrium beet price will decrease, and both the quantity demanded and the quantity supplied will fall.

b The equilibrium beet price will increase, and both the quantity demanded and the quantity supplied will increase.

c The equilibrium beet price will decrease, and the quantity demanded will increase but the quantity supplied will decrease.

d The equilibrium beet price will increase, and the quantity will decrease but the quantity supplied will increase.

e The equilibrium beet price will remain unchanged, and both the quantity demanded and the quantity supplied will increase.

ANS: B

15 Athos, Porthos, Aramis, and D'Artagnan, are all passionate readers. When Alexandre Dumas's new book 'The Three Musketeers' came out, they all hurried to the bookstore to buy a copy. The price was 14 francs. Their willingness to pay were as follows: D'Artagnan: 25 francs, Athos: 20 francs, Aramis: 17 francs, and Porthos: 12 francs. Assuming there are no shortages, the total consumer surplus was

a 74 francs

b 18 francs

c 62 francs

d 20 francs

e None of the above

ANS: D

16 Chicken and fish are substitute goods for most consumers. If the price of chicken increases, we expect to see

a A higher price and a lower quantity demanded in the fish market than before

b A higher price and a higher quantity demanded in the fish market than before

c A lower price and a lower quantity demanded in the fish market than before

d A lower price and a higher quantity demanded in the fish market than before

e No price change and the same quantity demanded in the fish market as before

ANS: B

17 When economists say that the quantity demanded of a good is negatively related to the price of the good they mean that

a an increase in the quantity demanded of the good leads to a decrease in the price of the good.

b an increase in the price of the good leads to a decrease in the quantity demanded of the good.

c there is a weak relationship between the quantity demanded of a good and the price of the good.

d Demand for high priced luxury items in general will be low.

e the price elasticity of demand is less than 1.

ANS: B

18 Which of the following would cause a change in the quantity demanded of cars at a given price? (i) a decrease in the incomes of car buyers (ii) an increase in the price of gasoline (petrol/benzin) (iii) an increase in the production costs of car manufacturers

a (i), (ii), and (iii)

b (i), and (ii), but not (iii)

c (ii), and (iii), but not (i)

d Only (iii)

e None of these will cause a change in the quantity demanded of cars at a given price.

ANS: B

19 A research report from the US Department of Agriculture found that, on average, a 10% increase in raw coffee-bean prices would cause a 2% increase in retail prices of coffee at the supermarket. The price elasticity of consumer demand for coffee is estimated to be -0.3. (''There is very low price-elasticity-of-demand for coffee, Paul Christopher, the chief international strategist at Wells Fargo Advisors, told Bloomberg. An increase in the price of coffee will cause little, if any, decrease in demand. Caffeine addicts will remain addicts.'') Which of the below is most consistent with a 30% increase in the price of raw coffee-beans?

a 1% increase in the price of coffee, and a 3% decrease in quantity demanded.

b 6% increase in the price of coffee, and a 2% decrease in quantity demanded.

c 10% increase in the price of coffee, and a no change in quantity demanded.

d 6% increase in the price of a coffee, and a 30% decrease in quantity demanded.

e 30% increase in the price of coffee, and a 6% decrease in quantity demanded.

ANS: B

20 Which of the following is true for a good, which economists call a 'normal good'? (i) an increase in buyers' income causes an increase in the quantity demanded at all prices of the good, (ii) a decrease in buyers' income causes a decrease in the quantity demanded at all prices of the good, (iii) the income elasticity of demand is positive.

a (i), (ii), and (iii)

b (i), and (ii), but not (iii)

c (ii), and (iii), but not (i)

d Only (iii)

e (i), and (iii), but not (i)

ANS: A

21 Imagine a market where currently there is a price ceiling. If the price ceiling is removed, we would expect to see

a Consumer surplus to increase, Producer surplus to increase, total surplus to increase

b Consumer surplus to increase, Producer surplus to decrease, total surplus to increase

c Consumer surplus to decrease, Producer surplus to increase, total surplus to increase

d Consumer surplus to decrease, Producer surplus to decrease, total surplus to decrease

e Consumer surplus to decrease, Producer surplus to increase, total surplus to decrease

ANS: C

22 Assume a perfectly competitive market. Which of these scenarios makes sense, if without price controls the price is $10, quantity demanded is 10 units, and quantity supplied is 10 units?

a With a price ceiling: Price = $11, quantity demanded = 11 units, quantity supplied = 11.

b With a price ceiling: Price = $9, quantity demanded = 9 units, quantity supplied = 9.

c With a price ceiling: Price = $9, quantity demanded = 11 units, quantity supplied = 9.

d With a price floor: Price = $9, quantity demanded = 11 units, quantity supplied = 9.

e With a price floor: Price = $11, quantity demanded = 11 units, quantity supplied = 9.

ANS: C

23 Suppose the price of gasoline (petrol/benzin) increases from 7 TL to 8 TL per liter. If, as a result, the quantity demanded decreases by \_\_\_, we will say that the demand for gasoline is\_\_\_.

a 1%, unit elastic. b 3%, inelastic

c 1%, elastic d 10%, elastic

e 7%, unit elastic.

ANS: B

24 Demand is elastic if \_\_\_\_, and demand is inelastic if\_\_\_\_\_\_.

a quantity demanded doesn't change in response to a change in the price of the good, quantity demanded changes in response to a change in the price of the good.

b quantity demanded decreases in response to a decrease in the price of the good, quantity demanded increases in response to an increase in the price of the good.

c quantity demanded decreases in response to an increase in the price of the good, quantity demanded decreases in response to an increase in the price of the good.

d the change in quantity demanded is larger than the price change that caused it, the change in quantity demanded is smaller than price change that caused it.

e the percentage change in quantity demanded is larger than the percentage change in the price that caused it, the percentage change in quantity demanded is smaller than the percentage change in the price that caused it.

ANS: E

25 We have the following information: When P = $5, quantity demanded is 120 units. When P = $10, quantity demanded is 100 units. When P = $15, the quantity demanded is 80 units. Assuming a linear demand, when P = $10, the elasticity of demand \_\_\_\_\_\_\_\_\_\_ and a 1 percent decrease in the price will cause \_\_\_\_\_\_\_\_in total revenue.

a is -2, an increase b is -2.5, an increase

c is -1, a decrease d is -0.4, a decrease

e is -0.4, an increase

ANS: D

26 When economists say that the equilibrium in the competitive market is efficient, they mean that...

a Consumer surplus is maximized.

b Producer surplus is maximized.

c The sum of consumer surplus and producer surplus is maximized.

d Any consumer who wants to buy the good at the prevailing market price can do so, and any seller who wants to sell the good at the prevailing market price can do so.

e All of the above

ANS: C

27 The market of good XYZ is perfectly competitive. After production costs decrease significantly we see almost no decrease in the market price of XYZ. This shows that

a The market of good XYZ cannot be perfectly competitive. The sellers keep the same market price and take the cost reduction into their profits.

b Demand for XYZ must have a very high price elasticity.

c Demand for XYZ must have a very low price elasticity.

d There must be a price ceiling, otherwise the price would have surely declined.

e There must be a price floor, otherwise the price would have surely declined.

ANS: B

28 Because of a small decrease in the supply of sugar the equilibrium price of sugar increases from $1.00 to $1.10, and the equilibrium quantity decreases from 50 units to 40 units. Based on these numbers, the price elasticity of demand of sugar is approximately

a is -2.0, which is a realistic value for the price elasticity of sugar in the real world.

b is -0.5, which is much lower (in absolute value!) than the price elasticity of sugar in the real world.

c is -2.0, which is much higher (in absolute value!) than the price elasticity of sugar in the real world.

d is -0.5, which is much higher (in absolute value!) than the price elasticity of sugar in the real world.

e is -0.1 which is a realistic value for the price elasticity of sugar in the real world.

ANS: C

29 Which of the following would not shift the demand curve for a good?

a a change in income

b an improvement in the technology used in the production of the good

c a change in the price of a related good

d a change in consumer taste towards the good

e all of the above will shift the demand curve for a good

ANS: B

30 To calculate the \_\_\_, TUIK (The Turkish Statistical Institute) collects millions of pieces of data from tax records, census surveys and profit statements. These data, which are obtained from households, businesses and government agencies, enable TUIK to construct a single measure of the lira value of output produced in Turkey every quarter. \_\_\_\_ counts only final goods and services, like the production of new cars, refrigerators, and computers, or the services provided by doctors, travel agents, and hair dressers. \_\_\_ also equals the sum of consumer spending on goods and services, investment expenditures by businesses (including any additions to inventory) and households, government purchases of goods and services, and the difference between exports and imports. The problem with measuring the current lira value of economic activity is that \_\_\_will always rise if prices of goods and services rise. To properly analyze changes in economic activity, economists separate \_\_\_\_ into two parts: its price component and its quantity component. The price component of \_\_\_\_ refers to the prices of the millions of types of goods and services produced, the quantity component refers to the actual number of units produced. Which of the below best fills the blanks?

a GDP b Per capita GDP

c The Consumer Price Index d The GDP Deflator

e The real GDP ANS: A

31 Which if the following is incorrect?

a GDP measures the monetary value of final goods and services, that is, those that are bought by the final user, produced in a country in a given period of time (say a quarter or a year). It counts all the output generated within the borders of a country. GDP is composed of goods and services produced for sale in the market. It also includes some government production, such as defense or education services provided by the government.

b Not all productive activity is included in GDP. For example, work performed in the home or by volunteers, and black-market activities are not included because they are difficult to measure and value accurately. That means, for example, that a baker who produces a loaf of bread for a customer would contribute to GDP, but would not contribute to GDP if he baked the same loaf for his family.

c The ''gross'' domestic product takes no account of the wear and tear on the capital stock, machinery, buildings, and equipment that are used in producing the output. If this depletion of the capital stock, called depreciation, and is around 15% of the GDP, is subtracted from GDP, we get net domestic product.

d One thing people want to know about an economy is whether its total output of goods and services is growing or shrinking. But because GDP is collected at current, or nominal, prices, one cannot compare two periods without correcting for inflation. To determine the ''real'' GDP, its nominal value must be adjusted to take into account price changes. Only then we can see whether the value of output has gone up because more is being produced or simply because prices have increased.

e The nominal GDP is important because it gives information about the size of the economy and how an economy is performing. The growth rate of nominal GDP is often used as an indicator of the general health of the economy. In broad terms, an increase in nominal GDP is interpreted as a sign that the economy is doing well. When nominal GDP is growing strongly, employment is likely to be increasing as companies hire more workers for their factories and people have more money in their pockets.

ANS: E

32 We need to be careful when comparing GDPs of two countries. GDP is measured in the currency of the country in question. That requires adjustment when trying to compare the value of output in two countries using different currencies. The usual method is to convert the value of GDP of each country into US dollars and then compare them. Conversion to dollars can be done either using market exchange rates, those that prevail in the foreign exchange market, or \_\_\_\_\_\_\_ (PPP) exchange rates. The PPP exchange rate is the rate at which the currency of one country would have to be converted into that of another to purchase the same amount of goods and services in each country. There is a large difference between market and PPP-based exchange rates in emerging market and developing countries. This is because certain goods and services tend to be cheaper in low-income than in high-income countries, for example, a haircut in New York is more expensive than in Bishkek, when both prices are expressed in US dollars at market exchange rates. For advanced countries, market and PPP exchange rates tend to be\_\_\_\_\_\_ . These differences mean that emerging market and developing countries have \_\_\_\_\_ estimated dollar GDP when the PPP exchange rate is used.

a purchasing-power-parity, much closer, a higher

b producer-prices-parity, much closer, a lower

c proportional-prices-parity, very different, a higher

d producer-prices-parity, very different, a lower

e purchasing-power-parity, much closer, the same

ANS: A

33 Real GDP provides a more accurate portrait of \_\_\_\_\_\_\_\_than nominal GDP because it uses \_\_\_\_\_\_\_ prices, making comparisons between years more meaningful by allowing for comparisons of the actual volume of goods and services.

a economic growth, constant

b the economy, constant

c the economy, base year

d economic growth, current

e economic growth, CPI

ANS: A

34 TUIK press release on 1 March 2021: Gross Domestic Product per capita was 60,537 TRY and 8,599 US Dollars in current prices in 2020. TUIK press release on 28 February 2020: The gross domestic product per capita was 51,834 TRY and 9,127 US Dollars in current prices in 2019. TUIK press release on 31 May 2021: GDP in constant 2009 prices was 1.78 trillion TRY in 2019, and 1.80 trillion TRY in 2020. Based on these figure, for 2020 the growth rate of per capita GDP in US dollars is -5.8%, the growth rate of per capita GDP in TRY is 16.8%, and the growth rate of GDP in constant prices is 1.7%. In 2020 population increase was 0.5%. The best measure of economic growth in year 2020 is

a the growth rate of per capita GDP in TRY, 16.8%.

b the growth rate of per capita GDP in US dollars, -5.8%.

c the growth rate of GDP in constant 2009 prices, 1.7%.

d the average of the growth rate of per capita GDP in US dollars, -5.8%, and the growth rate of per capita GDP in TRY, 16.8%.

e the average of the growth rate of per capita GDP in US dollars, -5.8%, the growth rate of per capita GDP in TRY, 16.8%, and the growth rate of GDP in constant 2009 prices, 1.7%, minus the 0.5% population growth.

ANS: C

35 Real GDP in 2020 using 2009 as the base year is 1.80 trillion TRY means that

a if the overall price level in 2020 were the same as it was in 2009, the market value of all final goods and services produced in the country in 2020 would have been 1.80 trillion TRY.

b if the nominal GDP in 2009 were 1 trillion TRY, the cumulative growth of real GDP from 2009 to 2020 would have been 80%, which gives us an average annual growth of about 5.5%.

c if there were zero annual inflation from 2009 to 2020, the market value of all final goods and services produced in the country in 2020 would have been 1.80 trillion TRY.

d The real output in 2020 is 80% higher than the real output in 2009.

e All of the above

ANS: E

36 GDP equals the sum of consumption, investment, government, and net export expenditures. Which of the below is not included in the investment expenditures component?

a Business fixed investment: spending on plant and equipment (including commercial buildings, factories, and stores)

b Residential fixed investment: household spending on residential housing units

c Inventory investment: The change in the value of all firms' inventories.

d Capital investment: net spending on stocks and bonds by households

e All of the above are included in the investment component of GDP.

ANS: D

37 Uslandia's GDP consist of potato chips and computers. The table shows the production levels and prices for these two goods for various years. The table for the imaginary economy of Uslandia illustrates an important point: The structure of the economy, meaning the relative prices and types of goods and services produced, changes over time. For example, in the US, in 1982, the production of information processing equipment (computers) as a share of GDP was 1.8 percent. By 1994, this share had increased to 4.7 percent. At the same time, computer prices dropped by roughly 13 percent a year. Now, going back to Uslandia, which of the following is correct for Uslandia's economy?

a From 1982 to 1992 potato chips have become relatively more expensive: In 1982 one bag of chips was worth 0.0010 computers, in 1992 one bag of chips was worth 0.0014 computers.

b From 1982 to 1992 computers have become relatively cheaper: In 1982 one computer was worth 1000 bags of chips, in 1992 one computer was worth 733 bags of chips.

c The share of potato chips in the nominal GDP was 87% in 1982, and 67% in 1992.

d The share of computers in the nominal GDP was 13% in 1982, and 33% in 1992.

e All of the above are correct

ANS: E

38 We see that in Uslandia the quantities and prices of both goods are increasing over time but at different rates. This means that

a there is inflation in Uslandia: The overall price level is rising.

b there is real economic growth in Uslandia.

c the growth rate of the nominal GDP is positive.

d the growth rate of the real GDP is positive.

e All of the above.

ANS: E

39 Which of the following is not affected by the choice of the base year for Uslandia?

a The growth rate of the nominal GDP from 1987 to 1992.

b The growth rate of real GDP from 1987 to 1992.

c The GDP deflator for 1987.

d The percentage change in the GDP deflator from 1987 to 1992.

e All are affected by the choice of the base year.

ANS: A

40 For Uslandia, A is the growth rate of real GDP from 1982 to 1992 with 1982 as the base year, B is the growth rate of real GDP from 1982 to 1992 with 1992 as the base year.

a A > B because the relatively high price of the computers in 1982 will put a bigger weight on the growth in the computer producing part of the economy.

b A = B because the choice of the base year has no effect on the growth rate of the real GDP

c A > B because the overall price level is higher in 1992 than in 1982

d A < B because the overall price level is higher in 1992 than in 1982

e A > B because computers are more important for an economy than potato chips.

ANS: A

41 For Uslandia, column \_\_\_ is the nominal GDP, column\_\_\_ is the real GDP with base year 1982, column\_\_\_ is the real GDP with base year 1987, column\_\_\_ is the real GDP with base year 1992.

a B, A, C, D

b B, C, D, A

c D, C, B, A

d A, C, B, D

e B, D, A, B

ANS: A

42 Which of the following statements about real and nominal interest rates is correct?

a If the nominal interest rate is 3 percent and the inflation rate is 4 percent, then the real interest rate is 3.5 percent.

b When the inflation rate is positive, the real interest rate is equal to the nominal interest rate.

c The real interest rate will be positive only when the rate of inflation is less than 5%.

d The real interest rate will always be lower than the nominal interest rate.

e The nominal interest rate is the rate of growth in the lira value of a deposit or debt, the real interest rate is the rate of growth in the purchasing power of a deposit or debt. If you deposit 1000TL in the bank for one year at 8% nominal interest rate, and if during the year CPI increases by 17%, your deposit will increase to 1075TL but the purchasing power of that 1075TL will be about 10% lower than the purchasing power of 1000TL at the time when you put it in the bank.

ANS: E

43 Please put these sentences in the correct order.

a Consumer price inflation is the rate at which the prices of goods and services bought by households rise or fall.

b A convenient way of thinking about this is to imagine a very large ''shopping basket'' containing those goods and services bought by households. As the prices of the various items in the basket change over time, so does the total cost of the basket. Movements in consumer price inflation index represent the changing cost of the shopping basket.

c In principle, the basket should contain all consumer goods and services purchased by households and the prices measured in every shop or outlet that supplies them.

d In practice, the consumer price index is calculated by collecting a sample of prices for a selection of representative goods and services in a range of retail locations including the internet.

ANS: A B C D

44 Although kept constant within year, the contents of the consumer price inflation basket of goods and services, and their associated expenditure weights, are\_\_\_\_\_\_. This is important in helping to avoid potential biases that might otherwise develop over time. This could be due to the development of entirely new goods and services, or the tendency for consumers to move away from buying goods and services whose prices have risen relatively rapidly to goods and services whose prices have fallen. For example, if the price of tea rose dramatically during one year, consumers might switch their spending towards coffee, making it necessary to \_\_\_\_\_\_\_\_\_\_ in the following year.

a updated annually, adjust the expenditure weights accordingly

b never updated, eliminate both goods from the CPI basket

c updated annually, eliminate tea from the CPI basket

d updated annually, eliminate coffee from the CPI basket

e updated only under extraordinary circumstances, include additional goods in the CPI basket

ANS: A

45 \_\_\_\_\_\_ makes it harder to compare lira amounts from different times. We use \_\_\_\_\_ to adjust figures so that they can be compared. For example, in September 1998 1 USD was 0.21 liras. Today the exchange rate is 8.5 liras to 1 USD. Was the Turkish lira really that much more valuable in 1998 than it is now? (If you do the “inflation correction” you will see that the lira was indeed 15% more valuable against the US dollar back then as compared to its current value.)

a the CPI, inflation

b Inflation, the CPI

c Changes in prices, inflation

d Economic growth, the real GDP

e Unemployment, the GDP Deflator

ANS: B

46 The market basket used to calculate the CPI has 8 loaves of bread, 12 bottles of milk, 4 shirts, and 5 hats. In 2005, prices were: bread: $1.00 per loaf, milk: $1.50 per bottle, shirt: $6.00, hat: $10.00. In 2006 prices were: bread: $1.50 per loaf, milk: $2.00 per bottle, shirt: $7.00, and hat: $12.00. The inflation rate in 2006 is approximately

a 20.0 percent

b 24.0 percent

c 22.0 percent

d 18.0 percent

e It is impossible to determine without knowing the base year.

ANS: B

47 Suppose the CPI basket has only two items: books and hamburgers. In 1999 prices were: books: $14, hamburgers: $1. In 2000 prices were: books: $16, hamburgers: $1.50. We can see that the hamburger prices are increasing at\_\_\_\_ rate than the book prices. Let 1999 be the base year. If the CPI basket has 5 books and 30 hamburgers, the CPI in 2000 will be\_\_\_\_\_\_\_\_\_ . But if the CPI basket has 4 books and 44 hamburgers, then the CPI in 2000 will be\_\_\_\_\_\_\_\_\_. The CPI basket matters!

a a faster, 125 and the inflation rate will be 25%, 130 and the inflation rate will be 30%

b a faster, 130 and the inflation rate will be 30%, 125 and the inflation rate will be 25%

c the same, 130 and the inflation rate will be 30%, 125 and the inflation rate will be 25%

d the same rate, 130 and the inflation rate will be 30%, 125 and the inflation rate will be 25%

e a slower, 125 and the inflation rate will be 25%, 130 and the inflation rate will be 30%

ANS: A

48 Which of the following is correct? In TUIK's 2021 CPI basket

a there are approximately 415 items. Among the 415 items, ''actual rent'' has a weight of 5.5% which is the largest weight among individual items.

b Cigarettes have a weight of 4.5%.

c There are approximately 140 items in the Food and Beverages category. Their total weight is about 25%.

d There are approximately 35 items in the Recreation and Culture category. Their total weight is about 3%.

e All of the above are correct.

ANS: E

49 Students who finish their university education and start their job search process is a good example of \_\_\_\_\_\_\_. Those who did not find a job while still in school will seek work. Most of them will find jobs, but it will take time. During that time, these new university graduates will be counted as unemployed. If information about the labor market were costless, firms and potential workers would instantly know everything they needed to know about each other and there would be no need for searches on the part of workers and firms. There would be no \_\_\_\_\_\_. But information is costly. Job searches are needed to produce this information, and \_\_\_\_ exists while the searches continue. Which word(s) best fills these blanks?

a frictional unemployment

b natural unemployment

c unemployment

d short-term unemployment

e cyclical unemployment

ANS: A

50 The CPI in year 1 is 145. The CPI in year 2 is 158. The rate of inflation between year 1 and 2 is about\_\_\_\_\_ percent.

a 13

b 15.8

c 14.5

d 58

e 9

ANS: E

51 The official measures of employment and unemployment can give unexpected results. For example, when after a mild recession the economy enters a new growth phase, called ''an expansion'', firms will expand and increase their output, but they may be reluctant to hire additional workers until they can be sure the demand for increased output will be sustained. They may first increase the hours of employees previously reduced to part-time work or by asking full-time personnel to work overtime. \_\_\_\_\_ will increase employment, because people are simply counted as employed if they are working, regardless of how much or how little they are working. In addition, an economic expansion may make discouraged workers more optimistic about finding a job, and they may restart their job searches. Restarting the job search makes them \_\_\_\_\_\_\_\_. Thus, an economic expansion may have little effect initially on employment and may even increase the rate of unemployment.

a None of that, unemployed again, and this will increase unemployment

b All of that, unemployed again, and this will increase unemployment

c None of that, be counted as in the labor force again, and this will increase employment

d None of that, employed again, and this will reduce unemployment

e This, discouraged workers, and this will increase unemployment

ANS: A

52 The labor force consists of everyone \_\_\_\_\_\_\_\_\_.

a of working age (15+) who are actively employed.

b of working age (15+) who are actively employed, and those seeking employment

c of working age (15+) who are actively employed, those seeking employment, and the so-called discouraged workers who are unable to find work and have stopped seeking a job.

d between the ages of 24 and 65.

e between the ages of 24 and 65 who are in good health.

ANS: B

53 People who are counted as not in the labor force are stay-at-home parents, students, retired people, people of old age, people of ill-health, and \_\_\_\_\_\_\_\_\_\_ .

a unemployed people

b discouraged workers who are unable to find work and have stopped seeking a job.

c part-time workers

d people who are seeking a job

e people who are waiting to start their new job within the next three months.

ANS: B

54 A person is counted as unemployed if

a They are not looking for work

b They are under the age of 15

c They are available to work and actively looking for employment

d They are over the age of 64

e All of the above

ANS: C

55 \_\_\_\_\_\_\_\_ is the result of workers searching for jobs, or waiting for new jobs to begin. It is often called job search unemployment. \_\_\_\_\_\_\_ is the component of overall unemployment that occurs when workers are unemployed because of economic changes associated with economic upturns and downturns: unemployment typically rises during economic recessions and declines during economic expansions.

a Frictional unemployment, Cyclical unemployment

b Cyclical unemployment, Frictional unemployment

c Structural unemployment, Cyclical unemployment

d Frictional unemployment, Structural unemployment

e The natural rate of unemployment, Actual unemployment

ANS: A

56 TUIK labor force surveys classify anyone who is 15 or older into one of these categories below except:

a not in the labor force

b employed

c unemployed

d discouraged workers

e All of the above are valid categories.

ANS: E

57 According to the most recent labor force statistics reported by TUIK the unemployment rate among women is

a significantly higher than the unemployment rate among men, and the labor force participation rate for women is significantly lower than the labor force participation rate for men.

b slightly higher than the unemployment rate among men, and the labor force participation rate for women is about the same as the labor force participation rate for men.

c significantly lower than the unemployment rate among men, and the labor force participation rate for women is significantly lower than the labor force participation rate for men.

d slightly lower than the unemployment rate among men, and the labor force participation rate for women is slightly lower than the labor force participation rate for men.

e about the same as the unemployment rate among men, and the labor force participation rate for women is about the same as the labor force participation rate for men.

ANS: A

58 In a small town of 120 people there are 15 children under 15. Among the remaining 105 people who are 15 or older, 69 people have full-time jobs, 3 people have part-time jobs, 3 are full-time students, 15 are retired, and 4 are stay-at-home fathers. The remaining 11 people did not have jobs, but wanted them. 9 or these 11 had actively looked for a job in the previous four weeks, 2 didn't. What is the unemployment rate in this town?

a 7.5%

b 11.1%

c 12.5%

d 14.3%

e 20%

ANS: B

59 To be counted as unemployed which of the following criteria must be true?

a Currently do not have a job.

b Have actively sought work in the past 4 weeks.

c Currently available for work.

d Not to be in the labor force

e All except D

ANS: E