Review Questions for Exam 3 (Chapter 7-8-9)

For questions 1-2, consider a country with consumption expenditures, private investment expenditures, government purchases, imports, and exports as summarized in the table below (each measured in millions of dollars):

| consumption expenditures | investment expenditures | government purchases | imports | exports |
| --- | --- | --- | --- | --- |
| $897 | $212 | $335 | $186 | $204 |

1. For this country, “net exports” are equal to
   1. $18 million.
   2. $234 million.
   3. $1, 834 million.
   4. $1,462 million.
2. For this country, “Gross Domestic Product ” is equal to
   1. $18 million.
   2. $234 million.
   3. $1, 834 million.
   4. $1,462 million
3. Faris was born in Amman, Jordan. Throughout his entire life he has excelled academically. After completing his high school education inAmman, Jordan, he came to the United States to pursue a PhD. Upon completion of his PhD, he was hired by a prestigious research university in Atlanta, where he works to this day. This story provides an illustration of the
   1. economic calculation problem.
   2. catch-up effect.
   3. brain drain.
   4. None of the above answers are correct.
4. A society could expect to achieve economic growth if it realized
   1. an improvement in technology
   2. a decrease in the quality of its labor force (e.g., a decrease in the average level of education of workers).
   3. an decrease in the available quantity of physical capital
   4. More than one (perhaps all) of the above answers is correct.
5. Using the rule of 72, what is the average annual growth rate of GDP needed for a country to double its size in just four years?
   1. 2 percent
   2. 4 percent C. 18 percent

D. 72 percent

1. Assume you invest $1,100 in a certificate of deposit that has an annual interest rate of 4.5 percent. According to the rule of 72, what will your investment be worth after 16 years?

A. $550

B. $39,600

C. $2,200

D. $797.5

1. A college professor who has been laid off during a recession is an example of
   1. frictional unemployment.
   2. seasonal unemployment. C. cyclical unemployment.

D. search unemployment.

1. If nominal GDP is $24,000 million, and the money supply is $6,000 million, then the velocity of money is equal to

A. 4.00

B. 3.1

C. 49.6

D. 0.25

1. Monetary Policy in the United States is determined by
   1. the Federal Reserve.
   2. the Judicial Branch of the Federal Government.
   3. the Executive Branch of the Federal Government.
   4. the Legislative Branch of the Federal Government.

For Questions 10 consider a society facing the tradeoffs between “Consumption Goods” and “Capital Goods” which are illustrated by the Production Possibilities Frontiers below. The curve labeled “1998 PPF” illustrates the PPF of this society in 1998. In 1998 this society chose “Point A” on this curve. As a result, by 2018 the society faced the PPF labeled “2018 PPF – A.” If they had instead chosen “Point B” in 1998 then they would have realized “2018 PPF – B” by 2018.

*Capital Goods*

*2018 PPF - B*



*2018 PPF - A*

*1998*

*PPF*

0

0

C

B

A

*Consumption Goods*

1. The “outward shift” of the PPF (from “1998 PPF” to “2018 PPF – A”) which occurred between 1998 and 2018 directly illustrates
   1. rent seeking.
   2. the free rider problem.
   3. economic development.
   4. economic growth.
2. According to the equation of exchange, if the money supply is $600 million, real GDPis

$2,100 million, and nominal GDP is $3,600 million, then the velocity of money is equal to

A. 3.5.

B. 1.7.

C. 10.3

D. 6.0.

1. If the money supply is $96 billion, the velocity of money is 5, and real GDP is $320 billion, then the price level equals

A. 4.00

B. 0.67

C. 5.45

D. 1.5

1. The phase of the business cycle that refers to the point in time at which overall economic activity reaches its minimum is the
   1. Recovery.
   2. Peak.
   3. Recession.
   4. Trough.

Please use the table below for Q-14-15

| *Do you currently have a job?* | Type A | Type B | Type C | Type D |
| --- | --- | --- | --- | --- |
| Yes | No | Yes | No |
| *Are you currently seeking a job?* | No | Yes | Yes | No |
| *Number of People of this type* | 500,000 | 220,000 | 80,000 | 600,000 |

1. There are people in the labor force ofthis society. A. 700,000

B. 800,000

C. 1,000,000

D. 1,600,000

1. This society’s Unemployment Rate is . A. 27.5%

B. 5%

C. 0.0275%

D. Cannot be computed from the information provided in the table.

1. If the country’s unemployment rate is 4.9% and inflation rate is 1.06%, what is the misery index for that country?

A. 5.96%

B. 5.22%

C. 3.84

D. Cannot be computed from the information provided in the table.

1. Deflation is
   1. a general decrease in the level of overall prices (i.e., a realization of a negative inflation rate)
   2. an extremely high rate of inflation, generally above 100% per year
   3. the rate at which the overall price level increases on an annual basis
   4. none of the above is true.
2. The Fed can increase the Money Supply in the U.S. by
   1. selling U.S. Treasury debt securities to thepublic.
   2. raising the reserve requirement.
   3. lowering the discount rate.
   4. More than one (perhaps all) of the above answers iscorrect.
3. The Fed can decrease the Money Supply in the U.S. by
   1. buying U.S. Treasury debt securities to the public.
   2. decreasing the reserve requirement.
   3. increasing the discount rate.
   4. More than one (perhaps all) of the above answers iscorrect.
4. If real GDP for Mexico was 9.8 trillion pesos at the end of 2000 and 11.3 trillion pesos at the end of 2001, then Mexico's economy grew at an annual rate of
   1. 15.31 percent
   2. 21.3 percent
   3. 0.1531 percent
   4. None of the above is correct.
5. Which of the following people would be considered unemployed?
   1. A full-time college student.
   2. A recent high school graduate looking for a first job.
   3. A retired school teaching collecting social security benefits.
   4. A homemaker contributing 10 hours per week as a volunteer worker in a hospital.
6. Which one of the following persons would NOT be considered unemployed?
   1. An auto worker vacationing in California during the layoff period, before the production of new models begins next month. He does not know for sure whether he will be called back to work when this happens, and looked for a new job last week.
   2. A college student actively searching for a summer job.
   3. A construction worker who has given up looking for work after 18 months without a job.
   4. A retiree actively looking for part-time work to supplement Social Security income.

Please use the table below for Q-23-24

| *Do you currently have a job?* | Type A | Type B | Type C | Type D |
| --- | --- | --- | --- | --- |
| Yes | Yes | Yes | No |
| *Are you currently seeking a job?* | No | Yes | Yes | Yes |
| *Number of People of this type* | 100,000 | 20,000 | 50,000 | 300,000 |

1. The labor force of this society is people. A. 470,000

B. 370,000

C. 300,000

D. Cannot be computed from the information provided in the table.

1. This society’s unemploymentRate is A. 63.82%

B.0.6382% C.1%

D.Cannot be computed from the information provided in the table.

1. The phase of the business cycle that refers to the period of time which an economy is contracting, commonly defined as six or more consecutive months declining in real GDP is the
   1. Recovery.
   2. Peak.
   3. Recession.
   4. Trough.
2. Expansionary monetary policy is
   1. an identity which relates the money supply, velocity of money, overall price level, and aggregate level of output to each other: MV = PQ
   2. the collection of all markets in which lenders and borrowers interact (e.g., mortgage markets, auto loan markets, consumer credit markets, business loan markets)
   3. an increase in the money supply which provides a short term stimulus to the macro-economy, resulting in higher levels of output, employment, and incomes
   4. None of the above is true.
3. Suppose that “County A” were to realize a constant GDP Growth Rate of 8% peryear. It follows that Real GDP would double in roughly years. (Rule of 72)
   1. 4 B. 9
4. 25
5. 72

Please use the table below for Q-28

| The Production of an Accounting Book | |
| --- | --- |
| Production Stage | Sales Value |
| Purchase of Timber | $ 4.25 |
| Processing of Timber into Paper | $12.25 |
| Printing | $24.50 |
| Retail Sale of Accounting book | $47.00 |

1. Refer to the table above. What is the contribution to GDP from the production ofan economics book?

A. $4.25

B. $16.50

C. $88.00 D. $47.00

**For questions 29 and 30 consider a country with realized rates of inflation, unemployment, and GDP growth in 2012, 2014, 2016, and 2018 as summarized in the table below.**

|  | **2012** | **2014** | **2016** | **2018** |
| --- | --- | --- | --- | --- |
| **Inflation Rate** | 1.8% | 1.2% | – 1.3% | 0.8% |
| **Unemployment Rate** | 3.3% | 4.0% | 5.2% | 2.0% |
| **Real GDP Growth Rate** | 2.1% | 1.8% | – 0.5% | 0.4% |

1. In which year was the Misery Index greatest in value? A. 2012.

B. 2014.

C. 2016.

D. 2018.

1. In which year did this country realize “deflation”? A. 2018.

B. 2016.

C. 2014.

D. 2012.

***For questions 31and 32, consider a country with realized rates of inflation, unemployment, and GDP growth in 2012, 2014, 2016, and 2018 as summarized in the table below.***

|  | **2012** | **2014** | **2016** | **2018** |
| --- | --- | --- | --- | --- |
| **Inflation Rate** | 1.7% | 1.3% | – 1.2% | 0.8% |
| **Unemployment Rate** | 4.3% | 5.0% | 6.2% | 6.0% |
| **Real GDP Growth Rate** | 2.1% | 1.8% | – 0.5% | 0.4% |

1. In which year was the Misery Index greatest in value? A. 2012.

B. 2014.

C. 2016.

**D. 2018.**

1. In which year did this country realize “deflation”? A. 2018.

B. **2016.**

C. 2014.

D. 2012.

1. The equation of exchange is defined as

# an identity which relates the money supply, velocity of money, overall price level, and aggregate level of output to each other: MV = PQ

* 1. the collection of all markets in which lenders and borrowers interact (e.g., mortgage markets, auto loan markets, consumer credit markets, business loan markets)
  2. an increase in the money supply which provides a short term stimulus to the macro-economy, resulting in higher levels of output, employment, and incomes
  3. None of the above statement is true.

1. “Country K” experienced deflation during 2019. This means that by the end of the year

# the overall price level was lower than at the start of the year.

* 1. Real GDP Per Capita was lower than at the start of the year.
  2. the unemployment rate was higher than at the start of the year.
  3. the level of net exports was lower than at the start of the year.

1. Crony Capitalism defined as

# an environment in which well-connected unscrupulous business people use corrupt political systems to their advantage in order to obtain preferential treatment from government

* 1. environment in which property rights and contracts are respected and administered fairly and transparently, without favoritism
  2. a conjecture that poor countries will remain poor since they do not have sufficient resources available to make the investments in capital which are necessary for economic growth
  3. None of the above is true

1. Capital flight is
   1. an environment in which well-connected unscrupulous business people use corrupt political systems to their advantage in order to obtain preferential treatment from government
   2. an environment in which property rights and contracts are respected and administered fairly and transparently, without favoritism
   3. a conjecture that poor countries will remain poor since they do not have sufficient resources available to make the investments in capital which are necessary for economic growth

# tendency for wealthy people in poor countries to invest their financial capital abroad instead of at home

1. If the country’s unemployment rate is 6% and inflation rate is 7%, what is the misery index for that country?

# A. 13%

B. 9.44%

C. 42%

D. there is no such a thing called “the misery index”

1. Which of the following statement is/are true?
   1. If you have a growing economy, you can print money without triggering inflation as long as the money supply is gradually increased at a rate equal to the growth rate of economy
   2. Under normal economic circumstances, if the money supply grows faster than real output it will cause inflation.
   3. While the gold standard eliminates the inflation, it can also prevent the Fed from enacting expansionary policy during recessions.

# More than one (perhaps all) of the above answers is correct.

1. Which one of the following persons would NOT be considered unemployed?
   1. An aircraft engineer is vacationing in Florida during the layoff period, before the production of new models begins next month. He does not know for sure whether he will be called back to work when this happens, and looked for a new job last week.
   2. A college student actively searching for a summer job.

# A car mechanic who has given up looking for work after 18 months without a job.

* 1. A retiree actively looking for part-time work to supplement Social Security income.

1. Which of the following people would be considered unemployed?
   1. A full-time university student.

# A recent college graduate looking for a first job.

* 1. A retired car mechanic collecting social security benefits.
  2. A homemaker contributing 15 hours per week as a volunteer worker in a hospital.