Econ 2100

Exam 3

Dr. Richard Fritz

Name: \_\_\_\_\_\_**ANSWER KEY**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Date: \_\_\_\_\_\_\_\_\_\_\_\_\_

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| 1. | The Boeing Company buys $3 million worth of steel, $2.5 million worth of computer hardware and software, and $1 million worth of mechanical tools to manufacture a certain model of aircraft. Boeing sells this particular model of aircraft at $10 million. The value added by Boeing is equal to: | |
| **A)** | **$3.5 million.** |
| B) | $16.5 million. |
| C) | $13 million. |
| D) | $15.5 million. |

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| 2. | Consider an economy that produces only two goods: DVDs and DVD players. Last year, 10 DVDs were sold at $20 each and 5 DVD players were sold at $100 each, while this year 15 DVDs were sold at $10 each and 10 DVD players were sold at $50 each. Real GDP this year using last year as the base year is: | |
| A) | $100. |
| B) | $700. |
| **C)** | **$1,300.** |
| D) | $300 |

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| 3. | For measuring a nation's standard of living, of the following, the best available common measure is: | |
| A) | nominal GDP. |
| B) | market GDP. |
| **C)** | **real GDP per capita.** |
| D) | nominal GDP per capita. |

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| 4. | If the CPI is 120 in year 1 and 150 in year 2, then the rate of inflation from year 1 to year 2 is: | |
| A) | 10%. |
| B) | 20%. |
| **C)** | **25%.** |
| D) | 50%. |

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| 5. | You read in the newspaper that the CPI in 2011 was 120. You conclude that a typical market basket in 2011 would have cost: | |
| A) | 20% more than the same market basket purchased in 2010. |
| B) | 120% more than the same market basket purchased in 2010. |
| **C)** | **20% more than the same market basket purchased in the base year.** |
| D) | 120% more than the same market basket purchased in the base year. |

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| 6. | An economy's gross domestic product is made up of: | |
| A) | consumption, saving, investment, and government spending. |
| **B)** | **consumption, investment, government spending, and net exports.** |
| C) | consumption, saving, inventories, financial markets, and government spending. |
| D) | consumption and saving. |

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| 7. | The rate of unemployment is found by dividing the: | |
| A) | number of people looking for work by the population. |
| **B)** | **number of people looking for work by the number of people looking for work plus the number of people who are employed.** |
| C) | labor force by the number of people looking for work. |
| D) | unemployed and discouraged workers by the labor force. |

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| 8. | Donna was laid off by her employer at the beginning of 2011. She looked for a job for three months but could not find anything suitable. She then decided to volunteer for a soup kitchen and stopped looking for a job. Donna is considered to be: | |
| A) | unemployed. |
| B) | underemployed. |
| **C)** | **a discouraged worker.** |
| D) | a part-time worker. |

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| 9. | According to economic data for the United States from 1949 to 2010, the unemployment rate is most likely to rise: | |
| **A)** | **whenever the economy grows at a rate below 3.25%.** |
| B) | only when there is zero percent economic growth. |
| C) | only when there is positive economic growth. |
| D) | whenever the economy grows at a rate between 4% and 4.8%. |

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| 10. | Anna recently moved to Boston because her husband, Joe, was to begin a new job as an economics professor at Harvard. Anna is an experienced surgeon who is interviewing with several hospitals in Boston. Anna is: | |
| **A)** | **frictionally unemployed.** |
| B) | structurally unemployed. |
| C) | cyclically unemployed. |
| D) | counted as employed, since she is likely to receive a job offer soon. |

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| 11. | Sam, who is 55 years old and has been a steelworker for 30 years, is unemployed because the steel plant in his town closed and moved to Mexico. Sam is: | |
| A) | cyclically unemployed. |
| B) | permanently unemployed. |
| C) | frictionally unemployed. |
| **D)** | **structurally unemployed.** |

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| 12. | Firms pay an efficiency wage because: | |
| **A)** | **it reduces the risk of losing the best workers.** |
| B) | it is required by law. |
| C) | they don't have to offer health insurance if they pay efficiency wages. |
| D) | it reduces the employee's income tax liability. |

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| 13. | The natural rate of employment is achieved when: | |
| A) | the actual rate of unemployment is equal to zero. |
| B) | the natural rate of unemployment is equal to the actual rate of unemployment. |
| C) | the quantity of labor supplied is equal to the quantity of labor demanded. |
| **D)** | **there is no cyclical unemployment.** |

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| 14. | Which of the following situations is likely to increase the natural rate of unemployment? | |
| **A)** | **the entrance of many new people into the work force** |
| B) | a decrease in unemployment compensation benefits |
| C) | a decrease in job search time due to information advances like the Internet |
| D) | the elimination of the minimum wage |

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| 15. | Recent declines in union membership are likely to cause the natural rate of unemployment to: | |
| A) | increase. |
| **B)** | **decrease.** |
| C) | be unaffected. |
| D) | be unpredictable. |

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| 16. | Shoe-leather costs refer to the: | |
| A) | effect of inflation on the prices of food, clothes, and other necessities. |
| **B)** | **increased cost of transactions due to inflation.** |
| C) | high price of leather goods. |
| D) | effect of inflation on transportation costs. |

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| 17. | During rapid price inflation, firms must frequently change prices. The cost of changing listed prices is known as the: | |
| **A)** | **menu cost.** |
| B) | real interest rate cost. |
| C) | shoe-leather cost. |
| D) | unit-of-account cost. |

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| 18. | You have gone to the bank to borrow money for one year. The nominal annual interest rate is 7.5%. The real rate of interest is 4%. Over the course of the year, overall prices increased by 4%. This rate of inflation hurt the \_\_\_\_\_ because the actual rate of inflation was \_\_\_\_\_ than the anticipated rate of inflation. | |
| A) | borrower; lower |
| B) | borrower; higher |
| **C)** | **lender; higher** |
| D) | lender; lower |

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| 19. | The Great Depression was caused by \_\_\_\_\_\_\_ shocks, and the recession of 1979–1982 was caused by \_\_\_\_\_\_ shocks. | |
| A) | demand; demand |
| **B)** | **demand; supply** |
| C) | supply; demand |
| D) | supply; supply |

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| 20. | When the aggregate price level increases, the purchasing power of many assets falls, causing a decrease in consumer spending. This is known as the \_\_\_\_\_ effect and is a reason why the \_\_\_\_\_ curve slopes \_\_\_\_\_. | |
| A) | interest rate; aggregate demand; downward |
| **B)** | **wealth; aggregate demand; downward** |
| C) | interest rate; investment demand; downward |
| D) | wealth; short-run aggregate supply; upward |

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| 21. | According to the interest rate effect, an increase in the price level causes people to \_\_\_\_\_\_\_ their money holdings, which \_\_\_\_\_\_\_\_\_\_ interest rates and \_\_\_\_\_\_\_\_\_\_ investment spending. | |
| **A)** | **increase; increases; decreases** |
| B) | decrease; increases; decreases |
| C) | increase; decreases; decreases |
| D) | decrease; decreases; increases |

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| 22. | Suppose the stock market crashes. Which of the following is most likely to occur? | |
| A) | the aggregate demand curve shifting to the right |
| **B)** | **the aggregate demand curve shifting to the left** |
| C) | a movement up the aggregate demand curve |
| D) | a movement down the aggregate demand curve |

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| 23. | Government purchases of goods and services differ from changes in taxes and transfer payments because government purchasing of goods and services: | |
| A) | is a type of fiscal policy, while changing taxes and transfer payments is a type of monetary policy. |
| B) | is a type of monetary policy, while changing taxes and transfer payments is a type of fiscal policy. |
| **C)** | **influences aggregate demand directly, while changing taxes and transfer payments influence aggregate demand indirectly.** |
| D) | influences aggregate demand indirectly, while changing taxes and transfer payments influence aggregate demand directly. |

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| 24. | Which of the following would cause a shift in the short-run aggregate supply curve? | |
| A) | a change in the quantity of real output supplied |
| B) | a change in the price level |
| **C)** | **a change in commodity prices** |
| D) | changes in aggregate demand |

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| 25. | During the Great Depression, the United States saw a movement \_\_\_\_\_\_\_\_along the short-run aggregate supply curve; during the 1979 oil crisis, the United States saw a \_\_\_\_\_\_\_\_\_ shift in the short-run aggregate supply curve. | |
| **A)** | **down; leftward** |
| B) | up; leftward |
| C) | up; rightward |
| D) | down; rightward |

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| 26. | According to the long-run aggregate supply curve, when \_\_\_\_\_\_\_\_\_, the quantity of aggregate output supplied \_\_\_\_\_\_\_\_\_. | |
| A) | nominal wages rise; falls |
| **B)** | **the aggregate price level rises; does not change** |
| C) | the aggregate price level rises; falls |
| D) | the price of commodities falls; rises |

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| 27. | A major reason for the end of the Great Depression was an increase in government spending: | |
| A) | for social security. |
| B) | for space exploration |
| C) | for environmental protection. |
| **D)** | **associated with the war effort.** |

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| 28. | The largest source of federal tax revenues is: | |
| A) | property taxes. |
| **B)** | **personal income taxes.** |
| C) | corporate income taxes. |
| D) | sales taxes. |

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| 29. | If the current level of real GDP lies below potential GDP, then an appropriate fiscal policy would be to increase \_\_\_\_\_, which will shift the \_\_\_\_\_ curve to the \_\_\_\_\_. | |
| A) | government purchases; aggregate demand; left. |
| B) | transfer payments; aggregate supply; right. |
| C) | tax rates; aggregate demand; right. |
| **D)** | **government purchases; aggregate demand; right.** |

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| 30. | Government spending will not crowd out private spending if: | |
| A) | all of the resources in the economy are employed. |
| B) | aggregate income is at its potential level. |
| C) | there is an inflationary gap. |
| **D)** | **there is a recessionary gap.** |

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| 31. | Government's efforts to stabilize the business cycle through fiscal policy can destabilize the economy because of: | |
| **A)** | **lags in the process of drafting a budget appropriate to the circumstances.** |
| B) | a negative interaction between fiscal and monetary policy due to the multiplier effect. |
| C) | a tendency of prices to change faster than the interest rate. |
| D) | business cycles that are closely synchronized to the political cycle. |

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| 32. | The functions of money are: | |
| A) | expander of economic activity, medium of exchange, and store of value. |
| B) | medium of exchange, store of value, and factor of production. |
| C) | store of value, medium of exchange, and determinant of investment. |
| **D)** | **store of value, unit of account, and medium of exchange.** |

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| 33. | Currency in the United States today is \_\_\_\_\_\_\_ money. | |
| **A)** | **fiat** |
| B) | intrinsic |
| C) | commodity |
| D) | commodity-backed |

**Answer Key**

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| 1. | A |
| 2. | C |
| 3. | C |
| 4. | C |
| 5. | C |
| 6. | B |
| 7. | B |
| 8. | C |
| 9. | A |
| 10. | A |
| 11. | D |
| 12. | A |
| 13. | D |
| 14. | A |
| 15. | B |
| 16. | B |
| 17. | A |
| 18. | C |
| 19. | B |
| 20. | B |
| 21. | A |
| 22. | B |
| 23. | C |
| 24. | C |
| 25. | A |
| 26. | B |
| 27. | D |
| 28. | B |
| 29. | D |
| 30. | D |
| 31. | A |
| 32. | D |
| 33. | A |