**Review Questions**

1. Suppose that an economy produces 40,000 units of good A which sells at $4 a unit and 20,000 units of good B which sells at $5 per unit. Production of good A contributes

|  |  |
| --- | --- |
| a. | 2 times as much to GDP as the production of good B. |
| **b.** | **8/5 times as much to GDP as the production of good B.** |
| c. | 5/4 times as much to GDP as the production of good B. |
| d. | 4/5 times as much to GDP as production of good B. |

2. Over time, people have come to rely more on market-produced goods and services and less on goods and services they produce for themselves. For example, busy people with high incomes, rather than cleaning their own houses, hire people to clean their houses. By itself, this change has

|  |  |
| --- | --- |
| a. | caused measured GDP to fall. |
| b. | not caused any change in measured GDP. |
| **c.** | **caused measured GDP to rise.** |
| d. | probably changed measured GDP, but in an uncertain direction; the direction of the change depends on the difference in the quality of the cleaning that has resulted. |

3. Quality Motors is a Japanese-owned company that produces automobiles; all of its automobiles are produced in American plants. In 2010 Quality Motors produced $30 million worth of automobiles, with $17 million in sales to Americans, $9 million in sales to Canadians, and $4 million worth of automobiles added to Quality Motors’ inventory. The transactions just described contribute how much to U.S. GDP for 2010?

|  |  |
| --- | --- |
| a. | $17 million |
| b. | $21 million |
| c. | $26 million |
| **d.** | **$30 million** |

4. Which of the following is *not* included in U.S. GDP?

|  |  |
| --- | --- |
| a. | additions of newly produced output to inventory |
| **b.** | **production of U.S citizens working in foreign countries.** |
| c. | the estimated rental value of owner-occupied housing |
| d. | the value of food purchased from a grocery store to make meals at home without pay |

5. The GDP deflator is the ratio of

|  |  |
| --- | --- |
| a. | real GDP to nominal GDP multiplied by 100. |
| b. | real GDP to the inflation rate multiplied by 100. |
| **c.** | **nominal GDP to real GDP multiplied by 100.** |
| d. | nominal GDP to the inflation rate multiplied by 100. |

6. Suppose an economy produces only cheese and fish. In 2010, 20 units of cheese are sold at $5 each and 8 units of fish are sold at $50 each. In 2009, the base year, the price of cheese was $10 per unit and the price of fish was $75 per unit. For 2010,

|  |  |
| --- | --- |
| **a.** | **nominal GDP is $500, real GDP is $800, and the GDP deflator is 62.5.** |
| b. | nominal GDP is $500, real GDP is $800, and the GDP deflator is 160. |
| c. | nominal GDP is $800, real GDP is $500, and the GDP deflator is 62.5. |
| d. | nominal GDP is $800, real GDP is $500, and the GDP deflator is 160. |

***Table 10-6***

The table below contains data for the country of Batterland, which produces only waffles and pancakes. The base year is 2009.

**Prices and Quantities**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Year** | **Price of**  **Waffles** | **Quantity of Waffles** | **Price of Pancakes** | **Quantity of**  **Pancakes** |
| 2008 | $2.00 | 100 | $1.00 | 100 |
| 2009 | $2.00 | 120 | $2.00 | 150 |
| 2010 | $2.00 | 150 | $3.00 | 200 |
| 2011 | $4.00 | 180 | $3.00 | 220 |

7. **Refer to Table 10-6.** In 2008, this country's nominal GDP was

|  |  |
| --- | --- |
| **a.** | **$300.** |
| b. | $390. |
| c. | $400. |
| d. | $540. |

8. **Refer to Table 10-6.** In 2009, this country's nominal GDP was

|  |  |
| --- | --- |
| a. | $300. |
| b. | $390. |
| c. | $400. |
| **d.** | **$540.** |

9. **Refer to Table 10-6.** In 2008, this country's real GDP was

|  |  |
| --- | --- |
| a. | $300. |
| b. | $390. |
| **c.** | **$400.** |
| d. | $540. |

10. **Refer to Table 10-6.** In 2009, this country's real GDP was

|  |  |
| --- | --- |
| a. | $100. |
| b. | $390. |
| c. | $400. |
| **d.** | **$540.** |

11. **Refer to Table 10-6.** In 2010, this country's real GDP was

|  |  |
| --- | --- |
| a. | $540. |
| **b.** | **$700.** |
| c. | $810. |
| d. | $1050. |

12. **Refer to Table 10-6.** In 2011, this country's real GDP was

|  |  |
| --- | --- |
| a. | $540. |
| **b.** | **$800.** |
| c. | $930. |
| d. | $1380. |

13. **Refer to Table 10-6.** In 2008, this country's GDP deflator was

|  |  |
| --- | --- |
| **a.** | **75.** |
| b. | 100. |
| c. | 133.3. |
| d. | This cannot be calculated from the information given. |

MSC: Applicative

14. **Refer to Table 10-6.** In 2009, this country's GDP deflator was

|  |  |
| --- | --- |
| a. | 1. |
| **b.** | **100.** |
| c. | 138.5. |
| d. | 540. |

15. **Refer to Table 10-6.** In 2010, this country's GDP deflator was

|  |  |
| --- | --- |
| a. | 77.8. |
| b. | 100. |
| c. | 128.6. |
| d. | 150. |

16. **Refer to Table 10-6.** In 2011, this country's GDP deflator was

|  |  |
| --- | --- |
| a. | 58.0. |
| b. | 100. |
| **c.** | 148.1. |
| **d.** | **172.5.** |

17. **Refer to Table 10-6.** From 2010 to 2011, this country's output grew

|  |  |
| --- | --- |
| a. | 12.5%. |
| **b.** | **14.3%.** |
| c. | 48.1%. |
| d. | 155.6%. |

18. **Refer to Table 10-6.** This country's inflation rate from 2008 to 2009 was

|  |  |
| --- | --- |
| a. | -25%. |
| b. | 25%. |
| **c.** | **33.3%.** |
| d. | 100%. |

19. Consider a small economy in which consumers buy only two goods: apples and pears. In order to compute the consumer price index for this economy for two or more consecutive years, we assume that

|  |  |
| --- | --- |
| a. | the number of apples bought by the typical consumer is equal to the number of pears bought by the typical consumer in each year. |
| **b.** | **neither the number of apples nor the number of pears bought by the typical consumer changes from year to year.** |
| c. | the percentage change in the price of apples is equal to the percentage change in the price of pears from year to year. |
| d. | neither the price of apples nor the price of pears changes from year to year. |

20. **THIS IS A BAD QUESTION. BOTH B and C ARE CORRECT!!!** The price index was 150 in the first year, 160 in the second year, and 165 in the third year. Which of the following statements is correct?

|  |  |
| --- | --- |
| a. | The price level was higher in the second year than in the first year, and it was higher in the third year than in the second year. |
| **b.** | **The inflation rate was positive between the first and second years, and it was positive between the second and third years.** |
| c. | The inflation rate was lower between the second and third years than it was between the first and second years. |
| d. | All of the above are correct. |

21. Suppose the price of a gallon of ice cream rises from $4 to $5 and the price of a can of coffee rises from $2 to $2.50. If the CPI rises from 150 to 177, then people likely will buy

|  |  |
| --- | --- |
| a. | more ice cream and more coffee. |
| b. | more ice cream and less coffee. |
| c. | less ice cream and more coffee. |
| **d.** | **less ice cream and less coffee.** |

22. Ethel purchased a bag of groceries in 1970 for $8. She purchased the same bag of groceries in 2006 for $25. If the price index was 38.8 in 1970 and the price index was 180 in 2006, then what is the price of the 1970 bag of groceries in 2006 dollars?

|  |  |
| --- | --- |
| a. | $5.39 |
| b. | $25.00 |
| c. | $29.11 |
| **d.** | **$37.11** |

23. Ruben earned a salary of $60,000 in 2001 and $80,000 in 2006. The consumer price index was 177 in 2001 and 221.25 in 2006. Ruben's 2006 salary in 2001 dollars is

|  |  |
| --- | --- |
| a. | $20,000; thus, Ruben's purchasing power increased between 2001 and 2006. |
| b. | $20,000; thus, Ruben's purchasing power decreased between 2001 and 2006. |
| **c.** | **$64,000; thus, Ruben's purchasing power increased between 2001 and 2006.** |
| d. | $64,000; thus, Ruben's purchasing power decreased between 2001 and 2006. |

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

|  |  |
| --- | --- |
| a. | When the nominal interest rate is rising, the real interest rate is necessarily rising; when the nominal interest rate is falling, the real interest rate is necessarily falling. |
| b. | If the nominal interest rate is 4 percent and the inflation rate is 3 percent, then the real interest rate is 7 percent. |
| c. | An increase in the real interest rate is necessarily accompanied by either an increase in the nominal interest rate, an increase in the inflation rate, or both. |
| **d.** | **When the inflation rate is positive, the nominal interest rate is necessarily greater than the real interest rate.** |

25. If the nominal interest rate is 7.5 percent and the rate of inflation is -2.5 percent, then the real interest rate is

|  |  |
| --- | --- |
| a. | -10 percent. |
| b. | -5 percent. |
| c. | 5 percent. |
| **d.** | **10 percent.** |

26. Megan is a landscaper. Which of the following are included in her human capital?

|  |  |
| --- | --- |
| a. | her knowledge of landscaping learned in college and her landscaping equipment |
| **b.** | **her knowledge of landscaping learned in college, but not her landscaping equipment** |
| c. | her landscaping equipment, but not her knowledge of landscaping learned in college |
| d. | neither her knowledge of landscaping learned in college nor her landscaping equipment |

27. Haley discovers a new way to design automobile engines so that they use less gasoline. Haley’s finding is an example of

|  |  |
| --- | --- |
| a. | physical capital. If Haley’s discovery leads to lower gasoline prices, it has made gasoline less scarce. |
| b. | physical capital. If Haley’s discovery leads to lower gasoline prices, it has made gasoline scarcer. |
| **c.** | **technological knowledge. If Haley’s discovery leads to lower gasoline prices, it has made gasoline less scarce.** |
| d. | technological knowledge. If Haley’s discovery leads to lower gasoline prices, it has made gasoline scarcer. |

28. Which of the following would increase productivity?

|  |  |
| --- | --- |
| a. | an increase in the physical capital stock per worker |
| b. | an increase in human capital per worker |
| c. | an increase in natural resources per worker |
| **d.** | **All of the above are correct.** |

29. When a country saves a larger portion of its GDP than it did before, it will have

|  |  |
| --- | --- |
| **a.** | **more capital and higher productivity.** |
| b. | more capital and lower productivity. |
| c. | less capital and higher productivity. |
| d. | less capital and lower productivity. |

30. Institutions that help to match one person's saving with another person's investment are collectively called the

|  |  |
| --- | --- |
| a. | Federal Reserve system. |
| b. | banking system. |
| c. | monetary system. |
| **d.** | **financial system.** |

31. The primary economic function of the financial system is to

|  |  |
| --- | --- |
| a. | keep interest rates low. |
| b. | provide expert advice to savers and investors. |
| c. | match one person’s consumption expenditures with another person’s capital expenditures. |
| d. | **match one person’s saving with another person’s investment.** |

32. What do we call financial institutions through which savers can indirectly provide funds to borrowers?

|  |  |
| --- | --- |
| a. | stock markets |
| b. | financial institutions |
| c. | financial markets |
| **d.** | **financial intermediaries** |

33. Banks

|  |  |
| --- | --- |
| **a.** | **play a role in creating an asset that people can use as a medium of exchange.** |
| b. | are financial intermediaries, but mutual funds are not financial intermediaries. |
| c. | are financial markets, as are bond markets. |
| d. | All of the above are correct. |

34. Net exports must equal zero for any economy

|  |  |
| --- | --- |
| a. | that is closed. |
| b. | for which *Y* = *C* + *I* + *G*. |
| c. | for which *S* = *Y* - *C* - *G*. |
| **d.** | **All of the above are correct.** |

35. In national income accounting, we use which of the following pairs of terms interchangeably?

|  |  |
| --- | --- |
| a. | “investment” and “private saving” |
| b. | “investment” and “purchases of stocks and bonds” |
| c. | “saving” and “national saving” |
| **d.** | **“public saving” and “government tax revenue minus government spending”** |

36. In a closed economy, national saving equals

|  |  |
| --- | --- |
| a. | investment. |
| b. | income minus the sum of consumption and government purchases. |
| c. | private saving plus public saving. |
| **d.** | **All of the above are correct.** |

37. The country of Bienmundo does not trade with any other country. Its GDP is $30 billion. Its government purchases $5 billion worth of goods and services each year, collects $7 billion in taxes, and provides $3 billion in transfer payments to households. Private saving in Bienmundo amounts to $5 billion. What are consumption and investment in Bienmundo?

|  |  |
| --- | --- |
| a. | $18 billion and $5 billion, respectively |
| **b.** | **$21 billion and $4 billion, respectively** |
| c. | $13 billion and $7 billion, respectively |
| d. | There is not enough information to answer the question. |

38. Larry buys stock in A to Z Express Company. Curly Corporation builds a new factory. Whose transaction would be an act of investment in the language of macroeconomics?

|  |  |
| --- | --- |
| a. | only Larry’s |
| **b.** | **only Curly Corporation’s** |
| c. | Larry’s and Curly Corporation’s |
| d. | neither Larry’s nor Curly Corporation’s |

39. The source of the supply of loanable funds

|  |  |
| --- | --- |
| **a.** | **is saving and the source of demand for loanable funds is investment.** |
| b. | is investment and the source of demand for loanable funds is saving. |
| c. | and the demand for loanable funds is saving. |
| d. | and the demand for loanable funds is investment. |

40. The slope of the demand for loanable funds curve represents the

|  |  |
| --- | --- |
| a. | positive relation between the real interest rate and investment. |
| **b.** | **negative relation between the real interest rate and investment.** |
| c. | positive relation between the real interest rate and saving. |
| d. | negative relation between the real interest rate and saving. |

41. The Eye of Horus incense company has $10 million in cash which it has accumulated from retained earnings. It was planning to use the money to build a new factory. Recently, the rate of interest has increased. The increase in the rate of interest should

|  |  |
| --- | --- |
| a. | not influence the decision to build the factory because The Eye of Horus doesn't have to borrow any money. |
| b. | not influence the decision to build the factory because its stockholders are expecting a new factory. |
| c. | make it more likely that The Eye of Horus will build the factory because a higher interest rate will make the factory more valuable. |
| **d.** | **make it less likely that The Eye of Horus will build the factory because the opportunity cost of the $10 million is now higher.** |

42. Which of the following could explain an increase in the equilibrium interest rate and a decrease in the equilibrium quantity of loanable funds?

|  |  |
| --- | --- |
| a. | The demand for loanable funds shifted right. |
| b. | The demand for loanable funds shifted left. |
| **c.** | **The supply of loanable funds shifted right.** |
| d. | The supply of loanable funds shifted left. |

43. Crowding out occurs when investment declines because

|  |  |
| --- | --- |
| **a.** | **a budget deficit makes interest rates rise.** |
| b. | a budget deficit makes interest rates fall. |
| c. | a budget surplus makes interest rates rise. |
| d. | a budget surplus makes interest rates fall. |

***Table 15-2***

2009 Labor Data for Baltivia

|  |  |
| --- | --- |
| Number of adults | 20,000 |
| Number of adults who are paid employees | 8,000 |
| Number of adults who work in their own businesses | 1,600 |
| Number of adults who are unpaid workers in a family member’s business | 1,000 |
| Number of adults who were temporarily absent from their jobs because of an earthquake | 400 |
| Number of adults who were waiting to be recalled to a job from which they had been laid off | 200 |
| Number of adults who do not have a job, are available for work, and have tried to find a job within the past four weeks | 1,400 |
| Number of adults who do not have a job, are available for work, but have not tried to find a job within the past four weeks | 780 |
| Number of adults who are full-time students | 3,000 |
| Number of adults who are homemakers or retirees | 3,620 |

44. **Refer to Table 15-2.** How many people were employed in Baltivia in 2009?

|  |  |
| --- | --- |
| a. | 9,600 |
| b. | 10,600 |
| **c.** | **11,000** |
| d. | 11,200 |

45. **Refer to Table 15-2.** How many people were unemployed in Baltivia in 2009?

|  |  |
| --- | --- |
| a. | 1,400 |
| **b.** | **1,600** |
| c. | 2,000 |
| d. | 2,780 |

46. **Refer to Table 15-2.** How many people were in Baltivia’s labor force in 2009?

|  |  |
| --- | --- |
| a. | 11,000 |
| **b.** | **12,600** |
| c. | 13,380 |
| d. | 20,000 |

47. **Refer to Table 15-2.** How many adults were *not* in Baltivia’s labor force in 2009?

|  |  |
| --- | --- |
| a. | 4,400 |
| b. | 6,620 |
| **c.** | **7,400** |
| d. | 8,690 |

48. **Refer to Table 15-2.** What was Baltivia’s unemployment rate in 2009?

|  |  |
| --- | --- |
| a. | 8.0 percent |
| **b.** | **12.7 percent** |
| c. | 15.9 percent |
| d. | 22.1 percent |

49. **Refer to Table 15-2.** What was Baltivia’s labor-force participation rate in 2009?

|  |  |
| --- | --- |
| a. | 55 percent |
| **b.** | **63 percent** |
| c. | 66.9 percent |
| d. | 87.3 percent |

50. A double coincidence of wants

|  |  |
| --- | --- |
| a. | is required when there is no item in an economy that is widely accepted in exchange for goods and services. |
| b. | is required in an economy that relies on barter. |
| c. | is a hindrance to the allocation of resources when it is required for trade. |
| **d.** | **All of the above are correct.** |

51. The confidence you have that a retailer will accept dollars in exchange for goods is based primarily on money

|  |  |
| --- | --- |
| a. | being a unit of account. |
| **b.** | **being a medium of exchange.** |
| c. | serving as a store of value. |
| d. | having intrinsic value. |

52. Dollar bills, rare paintings, and emerald necklaces are all

|  |  |
| --- | --- |
| a. | media of exchange. |
| b. | units of account. |
| **c.** | **stores of value.** |
| d. | All of the above are correct. |

53. Which list ranks assets from most to least liquid?

|  |  |
| --- | --- |
| a. | money, bonds, cars, houses |
| **b.** | **money, cars, houses, bonds** |
| c. | bonds, money, cars, houses |
| d. | bonds, cars, money, houses |

54. Imagine an economy in which: (1) pieces of paper called *yollars* are the only thing that buyers give to sellers when they buy goods and services, so it would be common to use, say, 50 yollars to buy a pair of shoes; (2) prices are posted in terms of yardsticks, so you might walk into a grocery store and see that, today, an apple is worth 2 yardsticks; and (3) yardsticks disintegrate overnight, so no yardstick has any value for more than 24 hours. In this economy,

|  |  |
| --- | --- |
| a. | the yardstick is a medium of exchange but it cannot serve as a unit of account. |
| **b.** | **the yardstick is a unit of account but it cannot serve as a store of value.** |
| c. | the yardstick is a medium of exchange but it cannot serve as a store of value, and the yollar is a unit of account. |
| d. | the yollar is a unit of account, but it is not a medium of exchange and it is not a liquid asset. |

55. Which of the following is *not* included in M1?

|  |  |
| --- | --- |
| a. | a $5 bill in your wallet |
| b. | $100 in your checking account |
| **c.** | **$500 in your savings account** |
| d. | All of the above are included in M1. |

56. If traveler’s checks were $500 higher and saving deposits were $1,000 higher, M1 would be

|  |  |
| --- | --- |
| a. | $500 higher and M2 would be $1,000 higher |
| **b.** | **$500 higher and M2 would be $1,500 higher** |
| c. | M2 and M1 would be $1,500 higher |
| d. | None of the above are correct. |

57. The Board of Governors

|  |  |
| --- | --- |
| a. | is chaired by the U.S. Secretary of the Treasury. |
| b. | members are elected by the U.S. public. |
| **c.** | **has 7 members.** |
| d. | All of the above are correct. |

58. At the Federal Reserve,

|  |  |
| --- | --- |
| a. | the nation’s monetary and fiscal policies are made by the Federal Open Market Committee, which meets about every six weeks. |
| b. | the nation’s monetary and fiscal policies are made by the Federal Open Market Committee, which meets twice a year. |
| **c.** | **the nation’s monetary policy is made by the Federal Open Market Committee, which meets about every six weeks.** |
| d. | the nation’s monetary policy is made by the Federal Open Market Committee, which meets twice a year. |

59. In a system of 100-percent-reserve banking,

|  |  |
| --- | --- |
| **a.** | **banks do not make loans.** |
| b. | currency is the only form of money. |
| c. | deposits are banks’ only assets. |
| d. | All of the above are correct. |

60. Suppose the banking system currently has $400 billion in reserves, the reserve requirement is 10 percent, and excess reserves are $3 billion. What is the level of loans?

|  |  |
| --- | --- |
| a. | $3,603 billion |
| b. | $3,600 billion |
| c. | $3,573 billion |
| **d.** | **$3,570 billion** |

61. If a bank desires to hold no excess reserves, the reserve requirement is 5 percent, and it receives a new deposit of $1,000

|  |  |
| --- | --- |
| a. | its required reserves increase by $50. |
| b. | its total reserves initially increase by $1,000. |
| c. | it will be able to make a new loan of up to $950. |
| **d.** | **All of the above are correct.** |

62. The money multiplier equals

|  |  |
| --- | --- |
| a. | 1/*R,* where *R* represents the quantity of reserves in the economy. |
| **b.** | **1/*R,* where *R* represents the reserve ratio for all banks in the economy.** |
| c. | 1/(1+*R*), where *R* represents the quantity of reserves in the economy. |
| d. | 1/(1+*R*), where *R* represents the reserve ratio for all banks in the economy. |

63. If the reserve ratio is 20 percent, then $100 of new reserves can generate

|  |  |
| --- | --- |
| a. | $60 of new money in the economy. |
| b. | $250 of new money in the economy. |
| **c.** | **$500 of new money in the economy.** |
| d. | $2,000 of new money in the economy. |

64. When the Federal Reserve conducts open-market operations to increase the money supply, it

|  |  |
| --- | --- |
| a. | redeems Federal Reserve notes. |
| **b.** | **buys government bonds from the public.** |
| c. | raises the discount rate. |
| d. | decreases its lending to member banks. |

65. If the discount rate is lowered, banks borrow

|  |  |
| --- | --- |
| a. | less from the Fed so reserves increase. |
| b. | less from the Fed so reserves decrease. |
| **c.** | **more from the Fed so reserves increase.** |
| d. | more from the Fed so reserves decrease. |

66. The Fed increases the reserve requirement, but it wants to offset the effects on the money supply. Which of the following should it do?

|  |  |
| --- | --- |
| a. | sell bonds to increase reserves |
| b. | sell bonds to decrease reserves |
| **c.** | **buy bonds to increase reserves** |
| d. | buy bonds to decrease reserves |