

Homework # 3

Name _____

Instructions:

The problem set is designed to help you prepare for the first exam. You can talk to up to 2 (two) classmates about the questions in the problem set, but you cannot just copy the answers from them. **Each of you should submit your own answers using a scantron (Form 882-E).**

When filling the answers on the scantron, please use a **pencil** and **write your name with capital letters**. Also, write **'HW3'** for 'test', 'Macro' for subject, "P03" for period and the date. On the scantron, encode the letter corresponding to the correct answer. If you (i) fail to answer a question, (ii) select the incorrect answer, or (iii) select more than one answer, you will receive zero credit for that question. There are 20 questions worth 5 points each.

The scantron will be collected at the beginning of the class on Monday, October 10, 2016. No late submission is accepted. Please plan to attend the class on time or early in order to get a grade for the problem set. The problem set accounts as 5% of your final grade.

Good luck!

1) GDP is defined as

- A. the market value of all goods and services produced within a country in a given period of time.
- B. the market value of all goods and services produced by the citizens of a country, regardless of where they are living in a given period of time.
- C. the market value of all final goods and services produced within a country in a given period of time.
- D. the market value of all final goods and services produced by the citizens of a country, regardless of where they are living, in a given period of time.

2) Over the last few decades, Americans have chosen to cook less at home and eat more at restaurants. This change in behavior, by itself, has

- A. reduced measured GDP.
- B. not affected measured GDP.
- C. increased measured GDP only to the extent that the value of the restaurant meals exceeded the value of meals previously cooked at home.
- D. increased measured GDP by the full value of the restaurant meals.

3) In a certain economy in 2005, households spent \$1,000 on goods and services; purchases of capital equipment, inventories, and structures amounted to \$350; government spent \$450 on goods and services; and the value of imports exceeded the value of exports by \$50. It follows that 2005 GDP for this economy was

- A. \$1,750.
- B. \$1,850.
- C. \$1,950.
- D. \$2,100.

4) In a certain economy in 2005, GDP amounted to \$5,000; consumption amounted to \$3,000; government purchases were equal to investment; and the value of imports exceeded the value of exports by \$200. It follows that government purchases amounted to

- A. \$900.
- B. \$1,100.
- C. \$1,250.
- D. \$1,325.

- 5) The GDP deflator is a
- A) statistical measure of a weighted average of prices of a specific set of goods and services purchased by wage earners in urban areas.
 - B) statistical measure of a weighted average of prices of commodities that firms produce and sell.
 - C) price index measuring the changes in prices of all new goods and services produced in the economy.
 - D) price index that tracks the price level of commodities that firms purchase from other firms.
- 6) Which of the following is TRUE about the *labor force*?
- A) It includes those over 16 ages old and are employed.
 - B) It includes those over 16 ages old and are unemployed.
 - C) Both A and B are correct.
 - D) None of the above is correct.
- 7) Frictional unemployment will always exist since
- A) some workers will always want to make a job transition.
 - B) the capitalist system promotes unemployment.
 - C) mismatches in skills will always exist.
 - D) the U.S. economy will continue to shrink.
- 8) When Joe, who is among the highest-paid workers in a field in which there are numerous job openings across the nation, recently became unemployed, his opportunity cost of job search is
- A) average, so the length of his period of unemployment is likely to be long.
 - B) relatively high, so the length of his period of unemployment is likely to be short.
 - C) relatively low, so the length of his period of unemployment is likely to be long.
 - D) relatively high, so the length of his period of unemployment is likely to be long.
- 9) Suppose there are 100 million in the labor force, and 6 million unemployed people. During the next month, 200,000 people lose their jobs and 300,000 find jobs. The new total of employed is _____ and the new unemployment rate is _____.
- A) 100.1 million; 5.8 percent
 - B) 100 million; 6.1 percent
 - C) 94.1 million; 5.9 percent
 - D) 93.9 million; 6.1 percent
- 10) In 2004, based on concepts similar to those used to estimate U.S. employment figures, the Canadian adult noninstitutionalized population was 25.022 million, the labor force was 16.956 million, and the number of people employed was 15.864 million. According to these numbers, the Canadian labor-force participation rate and unemployment rate were about
- A. 67.8% and 6.4%
 - B. 67.8% and 4.4%
 - C. 63.4% and 6.4%
 - D. 63.4% and 4.4%
- 11) A sustained decrease in the average of all prices of goods and services in the economy is known as
- A) inflation.
 - B) disinflation.
 - C) deflation.
 - D) hyperinflation.

12) Assume that the current price of a market basket of goods is \$2,500 and the base year price of the same market basket is \$1,340. The consumer price index is

- A) 53.6.
- B) 40.0.
- C) 138.3.
- D) 186.6.

13) Last year the price of a dozen eggs was \$1, and this year the price is \$1.30. Which of the following does NOT express this price change accurately?

- A) The price increased 30 percent.
- B) The price increased by 30 cents.
- C) If last year was the base year, the index number for this year would be 130.
- D) If this year is the base year, the index number for last year would be 130.

| Market Basket | Quantity | 2014 Price | 2015 Price |
|---------------|----------|------------|------------|
| CDs | 10 | \$32 | \$24 |
| Gasoline | 200 gal | \$2.00 | \$2.50 |

14) If 2014 is the base year, what is the price index for a market basket of goods for 2015 in the above table?

- A) 97.3
- B) 102.8
- C) 128.0
- D) Zero, since the price of CDs fell and the price of gasoline increased

| Commodity | Market Basket Quantity | 2010 Price per Unit | Cost of Market Basket in 2010 | 2015 Price per Unit | Cost of Market Basket in 2015 |
|-----------|------------------------|---------------------|-------------------------------|---------------------|-------------------------------|
| Milk | 10 gallon | 2.00 | 20.00 | 2.50 | 25.00 |
| Eggs | 10 dozen | 2.00 | 20.00 | 3.00 | 30.00 |
| Bread | 10 loaves | 2.00 | 20.00 | 3.00 | 30.00 |

15) Considering the data in the table shown above and 2010 as the base year, what is the increase in the price level between years 2010 and 2015?

- A) 0.0 percent
- B) 41.7 percent
- C) 17.1 percent
- D) 3.4 percent

16) An outward shift of the production possibilities curve represents

- A) economic contraction.
- B) economic growth.
- C) economic recession.
- D) economic inflation.

| Country | 2014 Real GDP | 2015 Real GDP | 2014 Population | 2015 Population |
|---------|------------------|------------------|--------------------|--------------------|
| A | \$280,000 | \$300,000 | 832.5 | 849.5 |
| B | 235,000 | 260,000 | 14.8 | 14.9 |
| C | 28,200 | 33,400 | 2.7 | 3.0 |
| D | 5,200,000 | 5,445,000 | 248.8 | 250.0 |

17) Refer to the above table. Which country had the highest growth rate of real Gross Domestic Product (GDP) from 2014 to 2015?

- A) A
- B) B
- C) C**
- D) D

18) Which of the following would represent the fastest annual growth?

- A) An increase in real GDP per capita of 3%
- B) An increase in real GDP of 6% and population growth of 4%
- C) An increase in real GDP of 2% and population decline of 1%
- D) An increase in real GDP of 5% and population growth of 1%**

19) Suppose per capita real GDP grows by 3.5% per year. Based on the Rule of 70, approximately how many years will it take for the level of per capita real GDP to double (i.e., increase by 100%)?

- A) 3.5 years
- B) 10 years
- C) 20 years**
- D) 35 years

20) If China's economy maintains a 7% annual growth rate over the next 20 years, about how large will its economy be in 20 years if its current GDP is \$12 trillion?

- A) \$24 trillion
- B) \$29 trillion
- C) 36 trillion
- D) \$48 trillion