

ECON 205 Midterm 1 Mock Exam C - Key

Section I: Multiple Choice

1. B
2. C
3. D
4. B
5. B
6. C
7. B
8. B
9. B
10. C
11. B
12. C

Section II: Graphing and Market Analysis

13) Electricity Price Cap

1. Correct graph with $P=0.20$, $Q=500$, ceiling at 0.15.
2. Binding ($0.15 < 0.20$).
3. Shortage = $560 - 430 = 130$ million kWh.
4. Any two: brownouts/rationing, waiting/priority queues, lower service quality, informal side contracts.
5. Supply subsidy (right shift) reduces shortage.

14) Wheat Market Two-Shock

1. Supply left (higher costs), demand right (population growth).
2. Price rises.
3. Quantity ambiguous due to opposing effects on Q .
4. Ceteris paribus: isolate each shock separately before combining results.

Section III: Quantitative Problems

15) National Accounts and Deflator

Data: - 2025: streaming 100x1500, furniture 400x220 - 2026: streaming 110x1620, furniture 440x236

1. Nominal GDP

- 2025: $100 \times 1500 + 400 \times 220 = 150,000 + 88,000 = 238,000$
- 2026: $110 \times 1620 + 440 \times 236 = 178,200 + 103,840 = 282,040$

2. Real GDP (base 2025)

- Real 2025 = 238,000
- Real 2026 = $100 \times 1620 + 400 \times 236 = 162,000 + 94,400 = 256,400$

3. Real growth

- $(256,400 - 238,000) / 238,000 = 7.73\%$

4. Deflator and inflation

- Deflator 2025 = 100.00
- Deflator 2026 = $(282,040 / 256,400) \times 100 = 110.00$
- Inflation = 10.00%

16) Labor Market Metrics

Given adults 220, E=136, U=12 (millions)

1. LF = 148
2. $u = 12 / 148 = 8.11\%$
3. LFPR = $148 / 220 = 67.27\%$
4. EPOP = $136 / 220 = 61.82\%$
5. If 4 million unemployed stop searching:
 - U=8, LF=144
 - New $u = 8 / 144 = 5.56\%$

17) Saving and NX

Given Y=7000, C=4700, T=1200, G=1500, I=980

1. Savings:

- $S_p = 7000 - 4700 - 1200 = 1100$
- $S_g = 1200 - 1500 = -300$
- $S = 800$

2. $NX = S - I = 800 - 980 = -180$

3. Trade deficit ($NX < 0$)

4. Higher r:

- C tends to fall
- I tends to fall

Section IV: Short Concept Responses

18) Elasticity + Revenue

1. Elasticity approx = $-2\% / 5\% = -0.40$
2. Inelastic (absolute value < 1)
3. Revenue rises when price rises under inelastic demand.

19) Production, Returns, and Policy

1. If K and L both double, Y doubles.
2. Constant returns to scale.
3. Valid policies: R&D support, education/human capital, innovation incentives, technology diffusion policy; mechanism is higher productivity parameter A.