ECON 202 - MACROECONOMIC PRINCIPLES

Instructor: Dr. Juergen Jung

Towson University

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Trial Session: Warm-Up

Who is the current president of the USA?

A) George Bush

B) Barack Obama

C) Hillary Clinton

D) George Clinton

E) **Donald Trump**

Trial Session: Warm-Up

The law of demand says that

A) if prices are high, quantities demanded are high

B) **if prices are low, quantities demanded are high**

C) **if prices are high, quantities demanded are low**

D) if prices are lower, quantities demanded are low

E) none of the above

Trial Session: Question 2

How large is nominal GDP in the US in 2015?

A) 16 Billion USD

B) 18 Billion USD

C) 16 Trillion USD

D) **18 Trillion USD**

E) 20 Trillion USD

Trial Session: Question 3

What is GDP per capita in the US?

A) $35,000

B) $45,000

C) **$55,000**

D) $65,000

E) $75,000

Trial Session: Cool-Down 1

What is Okun's law?

A) The negative relationship between inflation and the rate of unemployment

B) **The negative relationship between growth in unemployment and growth of GDP**

C) The positive relationship between growth in unemployment and growth of GDP

D) The positive relationship between inflation and the rate of unemployment

E) The positive correlation between the real interest rate and economic growth

Trial Session: Cool-Down 2

The U.S. is the largest economy in the world in terms of real GDP?

A) **True**
B) False

Session 1: Question 1

How large is nominal GDP in the US in 2015?

A) 16 Billion USD

B) 18 Billion USD

C) 16 Trillion USD

D) **18 Trillion USD**

E) 20 Trillion USD

Session 1: Question 2

How large is per capita GDP in the US in 2015?

A) 40,000 USD

B) 45,000 USD

C) 50,000 USD

D) **55,000 USD**

E) 60,000 USD

Session 1: Question 3

In the US, household consumption (durable, non-durable + services) is roughly

A) 20% of GDP

B) 1/3 of GDP

C) 1/2 of GDP

D) **2/3 of GDP**

E) 80% of GDP

Session 1: Question 4

The U.S. is the largest economy in the world in terms of real GDP?

A) **True**
B) False

Session 2: Question 1

A macroeconomic model

A) is a detailed depiction of the overall economy that is always true

B) prevents recessions

C) is an approximation of the economy that results in true forecasts of future aggregate variables

D) **is an approximation of the economy that results in approximate forecasts of future aggregate variables**

E) decreases inflation

Session 2: Question 2

The Gini Coefficient measures

A) how rich a nation is

B) how rich the citizens of a nation are on average

C) **how evenly distributed income is within a country**

D) the amount of growth without inflation

E) purchasing power parity adjusted income

Session 2: Question 3

Medicare is

A) a part of investment I

B) a part of government consumption G

C) a part of net exports NX

D) **not part of** G

E) a transfer that pays for healthcare of poor people

Session 2: Question 4

U.S. Net Exports are positive.

A) True

B) **False**

Session 3: Question 1

A pro-cyclical variable is a variable that

A) causes a boom

B) over time moves in the opposite direction of GDP

C) **over time moves with the business cycle**

D) **over time moves in the same direction as GDP**

E) precedes a recession

Session 3: Question 2

If an economy produces 50 planes and 500 plane seats for these planes. Planes sell for \$1 million each and plane seats sell for \$100 each. GDP in this economy is

A) \$1 million$\times$50 + \$100$\times$500

B) **\$1 million**$\times$50

C) \$100$\times$500

D) \$1 million$\times$50 - \$100$\times$500

E) -\$1 million$\times$50 + \$100$\times$500

Session 3: Question 3

If you sell your TV to a friend for \$100, then you have contributed to an increase in GDP of \$100.

A) True

B) **False**

Session 3: Question 4

If you burn your worst enemy's macroeconomics textbook you decrease GDP by $110 which is the price of the new textbook.

A) True

B) **False**

Session 3: Question 1

Cooking a fancy meal at your home on a Sunday increases GDP by the value the same meal would cost at a restaurant.

A) True

B) **False**

Session 3: Question 3

Country A produces final goods worth \$100 million.
Country B produces final goods worth \$100 million.
Workers in country A get two weeks of vacation. Workers in country B get four weeks of vacation.
GDP in Country B is higher because they have more leisure.

A) True

B) **False**

Session 4: Question 1

Producing raw oil worth \$100 million pollutes a nearby water source. According to some estimates cleaning the water would cost \$100 million. This cancels the increase in GDP from the oil production. So GDP does not increase in this case.

A) True

B) **False**

Session 4: Question 2

Net exports in the U.S. are roughly

A) 1% of GDP and negative

B) 1% of GDP and positive

C) 3 % of GDP and positive

D) **3% of GDP and negative**

E) 5% of GDP and negative

Session 4: Question 3

The GDP Deflator is defined as

A) real GDP/nominal GDP*100

B) **nominal GDP/real GDP*100**

C) real GDP * nominal GDP*100

D) nominal GDP/inflation*100

E) nominal GDP - real GDP*100

Session 4: Question 4

Nominal GDP in year 2015 (the **base year**) is \$5 million. The price inflation was 10% from the previous year. Real GDP in 2015 is:

A) \$5million $\times$ inflation

B) \$5million / inflation

C) **\$5million**

D) \$5million $+$ inflation

E) \$5million $-$ inflation

Session 5: Question 1

A trade tariff on imports of a good

A) increases the demand for this good because it now becomes more valuable

B) decreases the domestic supply of this good

C) **decreases the overall supply of this good**

D) **decreases foreign supply of this good**

E) None of the above

Session 5: Question 2

An import quota for a good

A) imposes a maximum price for this good

B) increases the supply of this good

C) **limits supply of this good to a certain quantity specified by the quota**

D) decreases the price for the good in the domestic market

E) None of the above

Session 5: Question 3

A country can either produce 80 cars or 20 trucks. The slope of the production possibilities frontier is

A) 80

B) -40

C) $-4(x)$

D) -2

E) $-0.25(x)$

Session 5: Question 4

The USA has a comparative advantage in steel production over Argentina if

A) it produces more steel per worker than Argentina

B) it has higher opportunity costs in making steel than Argentina

C) **it has lower opportunity costs in making steel than Argentina**

D) it makes a higher profit in steel production than Argentina

E) None of the above

Session 5: Question 5

The Terms of Trade

A) describes how well trade contracts are written with foreign nations

B) specifies how much trade is allowed by the government

C) describes environmental conditions that may help or hinder trade (e.g., distance, safety concerns, etc.)

D) **is the relative price of the export good over the import good**

E) None of the above

Session 6: Question 1

A laid-off steel worker not being able to find a job after a steel plant closed in Pittsburgh and steel production has moved elsewhere is defined as:

A) cyclically unemployed

B) discouraged worker

C) **structurally unemployed**

D) frictionally unemployed

E) seasonally unemployed

Session 6: Question 2

The labor force participation rate is defined as

A)

$$\frac{\text{empoyed } + \text{discouraged workers}}{\text{labor force}}$$

B)

$$\frac{\text{employed}}{\text{labor force}}$$

C)

$$\frac{\text{employed} + \text{unemployed}}{\text{population} \geq 16}$$

x

D)

$$\frac{\text{labor force}}{\text{population} \geq 16}$$

x

Session 6: Question 3

The Jan-Aug 2017 official U.S. unemployment rate is around

A) 2.9%

B) 3.9%

C) **4.5%**

D) 5.9%

E) 6.9%

Session 6: Question 4

CPI is defined as

A)

$$\frac{\text{Price}_{\text{base}} \times \text{Quantity}_{\text{base}}}{\text{Price}_{\text{base}} \times \text{Quantity}_{\text{base}}} \times 100$$

B)

$$\frac{\text{Price}_{\text{current}} \times \text{Quantity}_{\text{base}}}{\text{Price}_{\text{base}} \times \text{Quantity}_{\text{base}}} \times 100$$

x

C)

$$\frac{\text{Price}_{\text{current}} \times \text{Quantity}_{\text{current}}}{\text{Price}_{\text{base}} \times \text{Quantity}_{\text{base}}} \times 100$$

D)

$$\frac{\text{Price}_{\text{base}} \times \text{Quantity}_{\text{current}}}{\text{Price}_{\text{base}} \times \text{Quantity}_{\text{base}}} \times 100$$

Session 7: Question 1

Inflation is bad for somebody who lent money to a friend at a fixed interest rate.

A) **True**

B) False

Session 7: Question 2

Deflation is

A) inflation minus growth

B) an increase in the overall price level

C) **a decrease in the overall price level**

D) **a decrease in the CPI index**

E) bad for lenders

Session 7: Question 3

Inflation calculated using the CPI in general overstates the actual price inflation experienced by U.S. households

A) **True**

B) False

Session 8: Question 1

Hyperinflation is defined as:

A) Inflation exceeds 50% per day

B) Inflation exceeds 50% per week

C) **Inflation exceeds 50% per month**

D) Inflation exceeds 50% per year

Session 8: Question 2

If we double the amount of labor in Cobb-Douglas production function then

A) Capital will double as well

B) Output will double

C) Output will double if capital is held constant

D) **Output will double if capital doubles as well**

E) none of the above

Session 8: Question 3

In a free market with excess demand for the good/service

A) Prices will drop in the short-run

B) Prices will drop in the long-run

C) Prices will rise in the short-run

D) **Prices will rise in the long-run**

E) Prices won't change

Session 8: Question 4

If you have the following production function

$$Y = A \times K^{\alpha} \times N_d^{1-\alpha},$$

where K is capital and N_d is labor. You know that production parameter $\alpha = 0.33$, **total factor productivity** $A = 2$ and your level of capital is $K = 1$. If labor $N_d = 0$, then output is

A) **0**

B) 1

C) 2

D) 3.18

E) 4.18

Session 8: Question 5

If you have the following production function

$$Y = A \times K^{\alpha} \times N_d^{1-\alpha},$$

where K is capital and N_d is labor. You know that production parameter $\alpha = 0.33$, **total factor productivity** $A = 2$ and your level of capital is $K = 1$. If labor $N_d = 1$, then output is

A) 0

B) 1

C) **2**

D) 3.18

E) 4.18

Session 8: Question 6

If you have the following production function

$$Y = A \times K^{\alpha} \times N_d^{1-\alpha},$$

where K is capital and N_d is labor. You know that production parameter $\alpha = 0.33$, **total factor productivity** $A = 2$ and your level of capital is $K = 1$. If labor $N_d = 2$, then output is

A) 1

B) 2

C) **3.18**

D) 4.18

E) 5.18

Session 9: Question 1

The wage increases. If the substitution effect dominates the income effect then the quantity of labor supplied by households will decrease.

A) True

B) **False**

Session 9: Question 2

The Laffer curve describes that

A) higher taxes lead to higher household income

B) lower taxes lead to higher household income

C) **higher taxes lead to higher tax revenue if current tax rate is to the left of the peak**

D) **lower taxes lead to higher tax revenue if current tax rate is to the right of the peak**

E) taxes will lead to higher inflation

Session 10: Question 1

According to Kaldor's stylized facts

A) per capita output stays constant over time

B) per capita output grows over time and the growth rates do tend to diminish to zero

C) physical capital grows but stays constant on a per worker basis

D) **the ratio of capital to output has stayed constant over time**

E) none of the above

Session 10: Question 2

Capital deepening means that

A) more human capital is used in production

B) **more capital per worker is used in production**

C) more labor is used for each machine in production

D) more human capital is used per labor hour

E) none of the above

Session 11: Question 1

Capital deepening can be caused by

A) government taxing households

B) **households saving more for the future**

C) population growth

D) imports of cheap consumer goods

E) none of the above

Session 11: Question 2

If an economy operates at full employment the

A) unemployment rate is zero

B) **cyclical unemployment rate is zero**

C) the structural unemployment rate is zero

D) the frictional unemployment rate is zero

E) none of the above

Session 11: Question 3

According to the Solow Growth Model

A) the economy grows indefinitely

B) the economy grows if the initial capital stock is above the steady state level of capital

C) the economy only grows if the initial capital stock is exactly at the steady state level

D) **the economy grows up to the steady state level and then stops growing**

E) none of the above

Session 11: Question 4

According to the Solow Growth Model net investment is

A) equal to aggregate household savings S

B) **equal to gross Investment minus depreciation** $I - d \times K$

C) **equal to household savings minus depreciation** $S - d \times K$

D) **negative if the capital stock is larger than the long-run steady state level of capital** k^*

E) none of the above

Session 11: Question 5

If the money supply increases then the aggregate demand curve

A) does not change

B) **shifts right**

C) shifts left

D) shifts down

E) none of the above

Lecture 15: Question 6

A change in the price level shifts aggregate demand to the right.

A) True

B) **False**

Session 12: Question 1

In the AD/AS model, if government spending increases

A) output increases in the long-run

B) the price level increases but output stays the same in the short-run

C) **the price level increases but output stays the same in the long-run**

D) output and price level stay the same in the long-run

E) None of the above

Session 12: Question 2

The multiplier effect

A) increases taxes

B) increases autonomous consumption C_a

C) increases the marginal propensity to consume b

D) shifts the AD curve to the left once the government increases its spending (crowding out)

E) **none of the above**

Session 12: Question 3

You face the following consumption function

$$C = 100 + 0.75 \times Y$$

The multiplier in this case is

A) 0.4

B) 1

C) 2

D) 2.22

E) **4**

Session 13: Question 1

Expansionary fiscal policy

A) moves aggregate demand to the left

B) means that the government increases taxes

C) means that the government increases the money supply

D) moves aggregate demand down

E) **none of the above**

Session 13: Question 2

The outside lag of fiscal policy is the time it takes congress to formulate and pass a law e.g. a tax cut.

A) True

B) **False**

Session 13:Question 3

Military spending is part of the federal governments entitlement spending category.

A) True

B) **False**

Session 13: Question 4

Paying unemployment transfers in times of high unemployment is an example of

A) expansionary monetary policy

B) contractionary fiscal policy

C) contractionary monetary policy

D) increase business cycle fluctuations due to internal and external lags in implementing fiscal policy

E) **an automatic stabilizer**

Session 14: Question 1

In the income expenditure model, if autonomous consumption is 100, investment is 30 and the marginal propensity to consume is 75 percent, then equilibrium GDP (or output y) is

A) 500

B) **520**

C) 540

D) 560

E) 580

Session 14: Question 2

In the income expenditure model the investment multiplier is

A) one minus the marginal propensity to consume

B) **one over the marginal propensity to save**

C) **one divided by (one minus the marginal propensity to consume)**

D) one minus the marginal propensity to save

E) none of the above

Session 14: Question 3

In the income expenditure model any point on the 45-degree line is a point where aggregate expenditures are equal to GDP.

A) **True**

B) False

Session 15: Question 1

Increasing government spending G financed by an equal increase in taxes is an example of

A) deficit financing

B) contractionary fiscal policy

C) **balanced budget financing**

D) expansionary monetary policy

E) none of the above

Session 15: Question 2

The marginal propensity to consume is $b = 0.5$. If the government increases government spending by \$20 million and in order to finance this increase also increases taxes by \$20 million, then according to the multiplier effect output (or GDP) would increase by

A) \$10 million

B) **\$20 million**

C) \$40 million

D) \$60 million

E) none of the above

Session 15: Question 3

In a closed economy the tax multiplier is

A) one minus the marginal propensity to consume

B) $-\frac{1}{1-b}$

C) $\frac{b}{1-b}$

D) $-\frac{1-b}{b}$

E) $-\frac{b}{1-b}$ **(x)**

Session 16: Question 1

Investment is

A) pro-cyclical and fluctuates less than GDP

B) **pro-cyclical and fluctuations more than GDP**

C) counter-cyclical and fluctuations less than GDP

D) counter-cyclical and fluctuations more than GDP

E) none of the above

Session 16: Question 2

If future GDP growth is expected to be high then

A) **today's investment tends to be high**

B) today's investment is unaffected

C) today's investment is low as people wait to invest in the future

D) today's investment is counter-cyclical

E) none of the above

Session 16: Question 3

You will receive a payment five years from now of $600. After checking with your bank you find out that the nominal interest rate is stable and can be expected to be 2% for the foreseeable future. What is this future payment worth today?

A) $537

B) $539

C) $541

D) **$543**

E) $545

Session 17: Question 1

If the interest rate is high, then everything else equal, the present value of future cash is higher compared to a situation where the interest rate is low.

A) True

B) **False**

Session 17: Question 2

Grapes would be a good example for commodity money because they are easy to transport and easily divisible into smaller units.

A) True

B) **False**

Session 17: Question 3

According to the Q-Theory of investment

A) investments are high when interest rates are high

B) investments are low when output is high

C) **investments are positively correlated with stock market prices**

D) stock market prices are inversely related to investment spending

E) future investments are worth more than present ones

Session 17: End of Class - Question 4

If the interest rate is high, it is advantageous to hold as little cash as possible

A) **True**

B) False

Session 18: Question 1

The main components of the money aggregate M1 are

A) cash, checking/demand deposit accounts and savings accounts

B) cash, credit cards and checking/demand deposit accounts

C) **cash and checking/demand deposit accounts**

D) cash, Eurodollars, and travelers checks

E) none of the above

Session 18: Question 2

An open market purchase is

A) a sale of bonds by the Fed to slow down economic growth

B) a sale of bonds by the Fed to grow the economy

C) **the Fed buying bonds from banks to increase the money supply**

D) the Fed buying money from banks to decrease the money supply

E) the Fed buying bonds from banks to decrease the money supply

Session 18: Question 3

An open market purchase increases the money aggregate $M1 + M2$

A) **True**

B) False