

Multiple Choice

1. Which of the following is not a question addressed by macroeconomists?
 - a. Why is average income high in some nations but low in others?
 - b. What, if anything, can the government do to promote growth in incomes, low inflation, and stable employment?
 - c. What is the impact of foreign competition on the U.S. auto industry?**
 - d. Why do production and employment expand in some years and contract in others?
2. In computing GDP, market prices are used to value final goods and services because
 - a. market prices do not change much over time, so it is easy to make comparisons between years.
 - b. market prices reflect the values of goods and services.**
 - c. market prices reflect the quantity sold.
 - d. None of the above is correct; market prices are not used in computing GDP.
3. Changes in nominal GDP reflect
 - a. only changes in prices.
 - b. only changes in the amounts being produced.
 - c. both changes in prices and changes in the amounts being produced.**
 - d. neither changes in prices nor changes in the amounts being produced.
4. The purchase of rice produced this period is included in GDP if the rice is
 - a. used in a meal a restaurant sells during the same period they buy the rice.
 - b. purchased by a family who uses it to make tuna casserole for its supper.
 - c. purchased by a frozen food company to increase its inventory.
 - d. B and C are correct.**
5. A farmer sells five pounds of pecans to a Smith's Fresh Pecans for \$10. Smith's Fresh Pecans resells three pounds for \$4.50 per pound. The remaining pecans are shelled and canned and sold for a total of \$8.00 Taking these transactions into account, how much is added to GDP?
 - a. \$22.50
 - b. \$29.50
 - c. \$21.50**
 - d. \$31.50
6. In the calculation of the CPI, books are given greater weight than magazines if
 - a. consumers buy more books than magazines.**
 - b. the price of books is higher than the price of magazines.
 - c. it costs more to produce books than it costs to produce magazines.
 - d. books are more readily available than magazines to the typical consumer.
7. In an imaginary economy, consumers buy only hot dogs and hamburgers. The fixed basket consists

of 10 hot dogs and 6 hamburgers. A hot dog cost \$3 in 2006 and \$5.40 in 2007. A hamburger cost \$5 in 2006 and \$6 in 2007. Which of the following statements is correct?

- a. When 2006 is chosen as the base year, the consumer price index is 90 in 2007.
- b. When 2006 is chosen as the base year, the inflation rate is 150 percent in 2007.
- c. When 2007 is chosen as the base year, the consumer price index is 100 in 2006.
- d. When 2007 is chosen as the base year, the inflation rate is 50 percent in 2007.**

8. In one day Portal Computer Company made 400 laptops with 1200 hours of labor. What was its productivity?

- a. 1/3 laptop per hour**
- b. 3 hours per laptop
- c. 1200 laptops
- d. 400 laptops

9. Given that Monika's income exceeds her expenditures, Monika is best described as a

- a. saver or as a supplier of funds.**
- b. saver or as a demander of funds.
- c. borrower or as a supplier of funds.
- d. borrower or as a demander of funds.

10. We would expect the interest rate on Bond A to be higher than the interest rate on Bond B if the two bonds have identical characteristics except that

- a. Bond A was issued by a financially weak corporation and Bond B was issued by a financially strong corporation.
- b. Bond A was issued by the Exxon Mobil Corporation and Bond B was issued by the state of New York.
- c. Bond A has a term of 20 years and Bond B has a term of 1 year.

d. All the above are correct.

11. Other things the same, when the interest rate rises,

- a. people would want to lend more, making the supply of loanable funds increase.
- b. people would want to lend less, making the supply of loanable funds decrease.
- c. people would want to lend more, making the quantity of loanable funds supplied increase.**
- d. people would want to lend less, making the quantity of loanable funds supplied decrease.

12. In 2013, XYZ Corporation had total earnings of \$500 million and XYZ retained 20 percent of its earnings for future investments. If the price of a share of XYZ stock is \$70 and if 100 million shares of its stock is outstanding, then what is the price-earnings ratio?

- a. 6.25
- b. 11.2
- c. 14.0**
- d. 17.5

13. The number of shares of Biggie Corporation stock outstanding in 2013 was 100 million. In 2013, Biggie stock paid a dividend of \$2.50 per share and its dividend yield was 2 percent. If the price-earnings ratio is 20, then Biggie's total earnings in 2013 amounted to
- a. \$15.6 million.
 - b. \$250 million.
 - c. \$160 million.
 - d. \$625 million.**
14. Suppose that because of the popularity of the low-carb diet, bakeries need fewer workers and steak houses need more workers. The unemployment created by this change is
- a. frictional unemployment created by efficiency wages.
 - b. frictional unemployment created by sectoral shifts.**
 - c. structural unemployment created by efficiency wages.
 - d. structural unemployment created by sectoral shifts.
15. Which of the following is not correct?
- a. An organized withdrawal of labor from a firm by a union is called a strike.
 - b. The power of a union comes from its ability to strike if the union and the firm do not agree on the terms of employment.
 - c. Economists who study the effects of unions typically find that union workers earn about 25 to 35 percent more than similar workers who do not belong to unions.**
 - d. Workers in unions reap the benefit of collective bargaining, while workers not in unions bear some of the cost.
16. Who of the following would necessarily be included in the Bureau of Labor Statistics' "unemployed" category?
- a. Huey, who did not work during the previous four weeks
 - b. Dewey, who tried to find new employment during the previous four weeks
 - c. Louie, who was an unpaid worker during the previous four weeks
 - d. None of the above is correct.**

True/False

1. Microeconomics and macroeconomics are closely linked.
- a. True**
 - b. False
2. The inflation rate reported in the news is usually calculated from the GDP deflator rather than the consumer price index.
- a. True
 - b. False**
3. If a production function has constant returns to scale, then if all inputs double so does production.

a. True

b. False

4. Anything other than a change in the interest rate that decreases national saving shifts the supply of loanable funds to the left.

a. True

b. False

5. Someone who has a job but is absent from work because she is on vacation is counted as “employed.”

a. True

b. False

Short Answer

1. You find that your paycheck for the year is higher this year than last. Does that mean that your real income has increased? Explain carefully.

ANSWER:

Real income is nominal income adjusted for general increase in prices. If your paycheck is higher this year than last, your nominal income has increased. Whether your real income has increased or not depends on what has happened since last year to the level of prices of things you buy. If the percentage increase in prices is less than the percentage increase in nominal income, then real income has increased. If the percentage increase in prices is greater than the percentage increase in nominal income, the real income has decreases.

2. Some data that at first might seem puzzling: The share of GDP devoted to investment was similar for the United States and South Korea from 1960-1991. However, during these same years South Korea had a 6 percent growth rate of average annual income per person, while the United States had only a 2 percent growth rate. If the saving rates were the same, why were the growth rates so different?

ANSWER:

The explanation is based on the concept of diminishing returns to capital. A country that has a lot of income, and so a lot of capital, gains less by adding more capital than does a country that currently has little capital. It is easy to envision how a poor country without much capital could increase its output considerably with even a little more capital.

作图题

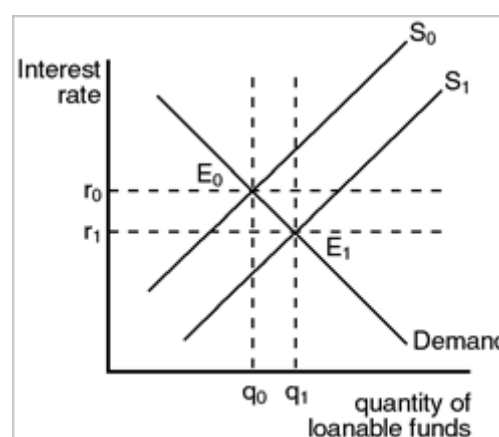
1. Using a graph representing the market for loanable funds, show and explain what happens to

interest rates and investment if the government budget goes from a deficit to a surplus.

ANSWER:

As shown in the graph below, the economy starts in equilibrium at point E_0 with interest rate r_0 and equilibrium quantity of saving and investment at q_0 . If the government succeeds in obtaining a surplus, there will be more public saving in the economy and so more national saving at each interest rate, and the supply of loanable funds curve will shift from S_0 to S_1 . The new equilibrium will be at E_1 , with a lower interest rate, r_1 and a higher quantity of saving and investment, q_1 . Hence, if the federal government succeeds in having a surplus, interest rates will fall and investment will increase.

Market for Loanable Funds



Problems

1. The country of Caspir produces only cereal and milk. Quantities and prices of these goods for the last several years are shown below. The base year is 2015.

Prices and Quantities

Year	Price of Cereal	Quantity of Cereal	Price of Milk	Quantity of Milk
2015	\$4.00	100	\$1.50	180
2016	\$4.00	120	\$2.00	200
2017	\$5.00	150	\$2.50	200
2018	\$6.00	180	\$3.50	240

- a. What's this country's nominal GDP of different years?

ANSWER: nominal GDP of 2015, 2016, 2017 and 2018 is \$670, \$880, \$1250, \$1920, respectively.

- b. What's this country's real GDP of different years?

ANSWER: real GDP of 2015, 2016, 2017 and 2018 is \$670, \$780, \$900, \$1080, respectively.

- c. What's this country's GDP deflator of different years?

ANSWER: GDP deflator of 2015, 2016, 2017 and 2018 is 100, 112.8, 138.9, 177.8, respectively.

d. what's the growth rate of this country's output in different years?

ANSWER: 16.4% from 2015 to 2016, 15.4% from 2016 to 2017, 20% from 2017 to 2018.

e. what's this country's inflation rate in different years?

ANSWER: 12.8% from 2015 to 2016, 23.1% from 2016 to 2017, 28.0% from 2017 to 2018

2. The table below shows the prices of baseballs and baseball bats for three years. Assume the typical consumer's basket consists of 6 baseballs and 2 baseball bats.

Year	Price of a Baseball	Price of a Baseball Bat
2008	\$3.25	\$75
2009	\$3.75	\$82
2010	\$4.50	\$96

a. How much was the cost of the basket in 2008?

ANSWER: \$169.50

b. If 2008 is the base year, then the consumer price index was

ANSWER: 100.00 in 2008, 110.03 in 2009, and 129.20 in 2010.

c. If 2009 is the base year, then the consumer price index was

ANSWER: 90.88 in 2008, 100.00 in 2009, and 117.43 in 2010.

d. If 2010 is the base year, then the consumer price index was

ANSWER: 77.40 in 2008, 85.16 in 2009, and 100.00 in 2010.

e. The inflation rate was

ANSWER: 10.03 percent in 2009 and 17.43 percent in 2010.

3. Assume the following information for an imaginary, closed economy.

GDP = \$100,000; taxes = \$22,000; government purchases = \$25,000; national saving = \$15,000.

a. For this economy, investment amounts to

ANSWER: \$15,000

b. This economy's government is running a

ANSWER: budget deficit of \$3,000.

c. For this economy, private saving amounts to

ANSWER: \$18,000.

d. For this economy, consumption amounts to

ANSWER: \$60,000.

4. Labor Force Statistics by Age

Suppose people in the adult population in a small country are classified based on their age.

Labor Force Status	less than 55	55 and older
Number employed	400,000	100,000
Number unemployed	25,000	7,000
Number in Population	600,000	200,000

a. In the proper order, which age group has the highest unemployment rate, and which has the highest participation rate?

ANSWER: 55 and older, under 55

b. Suppose that the natural rate of unemployment is 5% for those under 55 and 3% for those 55 and older. What's the cyclical unemployment rate for those under 55 and 55 and older, respectively?

ANSWER: 0.88% which is less than the cyclical unemployment rate for those 55 and older.