Quiz 1 8/10 **Econ 201A** **Spring 2010**

Please circle only one answer. Total points = 30 (each question is worth 3 points)

1. In the long run, labor productivity (defined as output per hour of work by a worker) improves as
a. the amount of capital --that labor works with --increases
b. the number of hours of work increases
c. the level of education of workers increases
d. all of the above
e. both a. and c. above

2. During 2009, an economy has experienced a rise of 0.4% in labor productivity. The level of economic activity in this economy increased by 1.5% during the same year. You would expect the level of employment of labor to have
a. increased by 0.9%
b. declined by 0.9%
c. increased by 0.6%
d. declined by 0.6%

3. Improvements in labor productivity require
a. higher levels of consumption
b. higher levels of investment
c. lower savings
d. both b. and c. above
e. both a. and c. above

4. Robinson Crusoe can either catch 3 fish or sew 1 fishing net, or, build 2 fences in an hour. In a 10 hour day, his production possibility frontier is:

a. 3*Fish + 1*Net + 2* Fence = 10
b. 1/3*Fish + 1*Net + 2* Fence = 10
c. 2*Fish + 6*Net + 3* Fence = 60
d. 3*Fish + 1*Net + 2* Fence = 60

5. Consider another example of a Robinson Crusoe (RC) economy. Suppose that RC's production possibility frontier for gathering coconuts and fish in an 8 hour work day is: 1/2*coconut + 2*Fish = 8. If his productivity in catching fish doubles,
a. RC can catch more fish but will not be able to increase his production of coconuts
b. RC can produce more of both goods
c. RC can catch more fish but can produce only 1 more coconut

Please turn over

The Questions 6-10 below pertain to the following Scenario:

The economy of Magic carpet produces only one good: carpets. There are 200 workers in this economy. It takes 4 workers to produce 1 carper per year. Each carpet is sold for $4000. Each worker is paid $600 in annual wages. There is no government or foreign sector in this economy.

6. (Magic Carpet 1) The level of national income in this economy is:
a. $40,000 (or $40K)
b. $80K
c. $120K
d. $200K
e. can not be determined from the information given

7. (Magic Carpet 2) The level of firms profits in the economy of Magic Carpet is:
a. $180K
b. $120K
c. $100K
d. $80K
e. Zero

8. (Magic Carpet 3) Suppose that consumers purchase all the carpets produced each year. The level of aggregate expenditures (AE) is:
a. $180K
b. $200K
c. $400K

9. (Magic Carpet 4) Now suppose that consumers purchase only 40 carpets a year in this economy. The level of aggregate expenditures (AE) is:
a. $200K
b. $180K
c. $160K
d. $100K

10. (Magic Carpet 5) Suppose that labor productivity in the economy of Magic carpet rises by 20%. The level of national product (NP) will be:
a. $180K
b. $200K
c. $220K
d. $240K