

This Sample Exam is not a study guide. It is just a sample of the type of questions you will find on the exam. Just knowing the answers to these questions is not enough preparation for the test. To truly prepare for the exam you should: read textbook chapters 7 through 10, review your lecture notes, and review homework assignments 5, 6, 7 and 8 and any problems solved in class.

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

.At the beginning of year 2010, the GDP per capita in country A is \$2,400. The annual growth rate of output in country A is 3%.

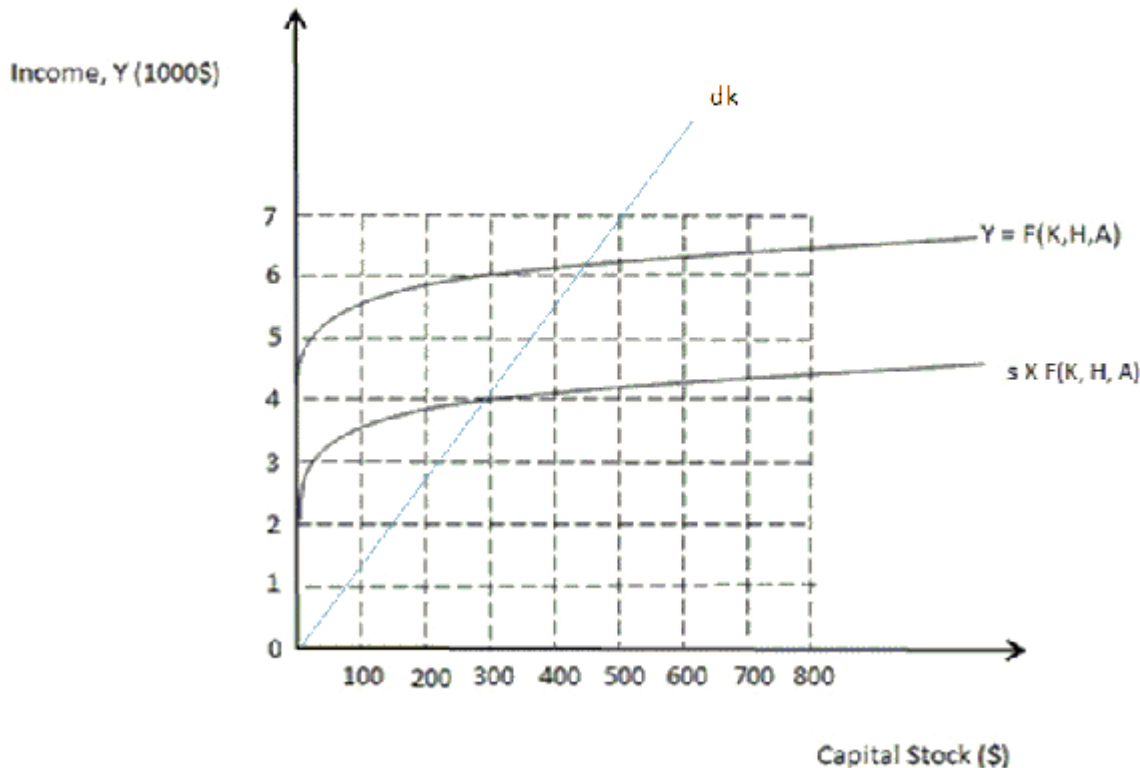
- 1) Refer to the scenario above. What will be the GDP per capita of country A at the beginning of year 2012? 1) _____
 A) \$2,800 B) \$2,410.26 C) \$2,760.24 D) \$2,546.16
- 2) Singapore had a GDP per capita of \$395 in 1960, and \$52,918 in 2013. The U.S had a GDP per capita of \$2,881 in 1960 and \$52,839 in 2013. Singapore's growth is referred to as: 2) _____
 A) catch-up growth. B) disguised growth.
 C) sustained growth. D) instant growth.
- 3) Consider two economies: A and B that are completely similar, except their savings rate. The savings rate in economy A is greater than the savings rate in economy B. Which of the following statements is true? 3) _____
 A) Capital accumulation will be faster in economy B in comparison to economy A.
 B) Rate of capital accumulation will be the same in both economies.
 C) Capital accumulation will be faster in economy A in comparison to economy B.
 D) Growth rate in country B is likely to be higher than the growth rate of country A in the long-run.
- 4) Consider a closed economy without the government. If the savings rate in the economy is 15% and the aggregate savings is \$6,000, the GDP of the economy is: 4) _____
 A) \$27,000. B) \$30,000. C) \$15,000. D) \$40,000.
- 5) Which of the following statements is true? 5) _____
 A) Economic growth can reduce poverty only if it is not associated with a significant rise in inequality.
 B) Economic growth always reduces inequality.
 C) Economic growth always reduces poverty.
 D) Economic growth is ineffective in reducing both poverty and inequality.
- 6) Which of the following equations captures the aggregate capital stock of the economy in this year, K_{now} ? 6) _____
 A) $K_{\text{now}} = (1 - \text{depreciation rate}) \times K_{\text{lastyear}} + I$
 B) $K_{\text{now}} = (1 - \text{depreciation rate}) \times K_{\text{lastyear}} \times I$
 C) $K_{\text{now}} = (1 - \text{depreciation rate}) \times K_{\text{lastyear}} - I$
 D) $K_{\text{now}} = (1 + \text{depreciation rate}) \times K_{\text{lastyear}} + I$
- 7) If s denotes savings rate, I denotes aggregate investment, and Y denotes GDP, then which of the following equations is correct? 7) _____
 A) $I = s \times Y$ B) $I = Y/s$ C) $Y = s \times I$ D) $I = s/Y$

8) In the Solow growth model, a steady-state equilibrium refers to:

8) _____

- A) an equilibrium in which the stock of physical capital remains constant over time.
- B) an equilibrium in which the GDP per capita remains constant over time.
- C) an equilibrium in which the poverty rate remains constant over time.
- D) an equilibrium in which the inequality remains constant over time.

The following graph shows the production function and the relationship between investment and physical capital stock given the saving rate of household, s , and depreciation rate, d .



9) Refer to the figure above. Assume there is no government expenditure and the economy is closed. What is the steady state stock of physical capital in the economy?

9) _____

- A) \$2,000
- B) \$300
- C) \$400
- D) \$450

10) Refer to the figure above. Assume there is no government expenditure and the economy is closed. What is the steady state investment in physical capital in the economy?

10) _____

- A) \$4,000
- B) \$6,000
- C) \$7,000
- D) \$2,000

Consider two economies: A and B. Both countries have access to the same aggregate production function and have the same population and same efficiency units of labor, but have different saving rates. The savings rate is higher in country A in comparison to country B.

- 11) Refer to the scenario above. If both economies have identical depreciation rate, then: 11) _____
- A) economy A's steady state equilibrium will lie to the right and below economy B's steady state equilibrium.
 - B) economy A's steady state equilibrium will lie to the right and above economy B's steady state equilibrium.
 - C) economy A's steady state equilibrium will lie to the left and above economy B's steady state equilibrium.
 - D) economy A's steady state equilibrium will lie to the left and below economy B's steady state equilibrium.
- 12) Which of the following statements is true? 12) _____
- A) Stock of human capital and the geography of a nation can be considered fundamental causes of prosperity.
 - B) Cultural and geographical conditions of a nation can be considered proximate causes of prosperity.
 - C) Stock of human capital and physical capital available to a nation can be considered proximate causes of prosperity.
 - D) Stock of human capital and the geography of a nation can be considered proximate causes of prosperity.
- 13) Countries in sub-Saharan Africa are economically disadvantaged because infectious diseases spread in these countries relatively easily. This statement reflects the: 13) _____
- A) institutions hypothesis.
 - B) culture hypothesis.
 - C) location hypothesis.
 - D) geography hypothesis.
- 14) The difference in economic growth in North Korea and South Korea can be fundamentally attributed to differences in _____. 14) _____
- A) institutions
 - B) geography
 - C) technology
 - D) culture
- 15) Consider two countries—country A and country B. Both countries are exactly similar in all aspects except for one. The institutions in country A are inclusive while the institutions in country B are extractive. Given this information, which of the following statements is likely to be true? 15) _____
- A) Both countries are likely to be capitalistic.
 - B) Country A is likely to have well-defined property rights, while country B is likely to lack well-defined property rights.
 - C) Country B is likely to have well defined property rights, while country A is likely to lack well-defined property rights.
 - D) Both countries are likely to be totalitarian.
- 16) If the institutions in an economy change from being inclusive to extractive, the return-to-entrepreneurship schedule in the economy will: 16) _____
- A) become horizontal.
 - B) shift leftward.
 - C) shift rightward.
 - D) become vertical.

- 17) Political creative destruction is likely to be opposed: 17) _____
 A) more in a market economy than in a command economy.
 B) equally in all types of economies.
 C) less in an economy with inclusive institutions than in an economy with extractive institutions.
 D) more in an economy with inclusive institutions than in an economy with extractive institutions.
- 18) The reversal of fortune can be attributed to the fact that: 18) _____
 A) economic institutions in initially prosperous European colonies were extractive, whereas economic institutions in formerly less prosperous nations and colonies were inclusive.
 B) economic institutions in European colonies were inclusive in all nations.
 C) economic institutions in European colonies were extractive in all nations.
 D) economic institutions in initially prosperous European colonies were inclusive, whereas economic institutions in formerly less prosperous nations and colonies were extractive.
- 19) If the number of employed workers in an economy is 8 million, the number of potential workers in the economy is 12 million, and the number of adults not in the labor force is 1 million, the number of unemployed people in the economy will equal: 19) _____
 A) 5 million. B) 3 million. C) 1 million. D) 7 million.
- 20) If unemployment rate among workers with no high school diploma is represented by NS, unemployment rate among workers with an high school diploma is represented by HS, and unemployment rate among workers with a bachelor's degree is represented by BS, then which of the following statements is true? 20) _____
 A) $HS > NS > BS$ B) $BS > HS > NS$ C) $NS > HS > BS$ D) $NS > BS > HS$
- 21) What will happen to the demand curve for workers in steel mills if some technology that increases their productivity is introduced assuming all else equal? 21) _____
 A) It will cause an upward movement along the demand curve of the workers.
 B) It may cause a rightward shift in the demand curve of the workers.
 C) It will cause a leftward shift in the demand curve of the workers.
 D) It will cause a downward movement along the demand curve of the workers.
- 22) If the opportunity cost of working outside the home decreases then it is likely that _____, assuming all else equal. 22) _____
 A) there will be a rightward shift in the labor supply curve
 B) there will be an upward movement along the labor supply curve
 C) there will be a downward movement along the labor supply curve
 D) there will be a leftward shift in the labor supply curve
- 23) Of the 5000 people age 16+ not institutions in a particular country, 2400 are employed and 600 are unemployed. What is the labor force participation rate? 23) _____
 A) $LFPR=12\%$ B) $LFPR=25\%$ C) $LFPR=48\%$ D) $LFPR=60\%$

24) The following table summarizes the production function for Boiler Burgers.

24) _____

Hamburgers sell for \$5 per unit, labor cost is \$20 per worker.

(1)	(2)	(3)	(4)
Number of Workers	Units of Output	Total Revenue	Value of Marginal Product of Labor
1	10		
2	25		
3	35		
4	40		
5	43		

How many workers should Boiler Burgers employ to maximize profits?

A) 2

B) 3

C) 4

D) 5

25) Unemployment arising from job search is called:

25) _____

A) cyclical unemployment.

B) disguised unemployment.

C) frictional unemployment.

D) structural unemployment.

26) Downward wage rigidity is likely to:

26) _____

A) increase unemployment.

B) increase wage rates.

C) decrease wage rates.

D) decrease unemployment.

27) Which of the following statements is true?

27) _____

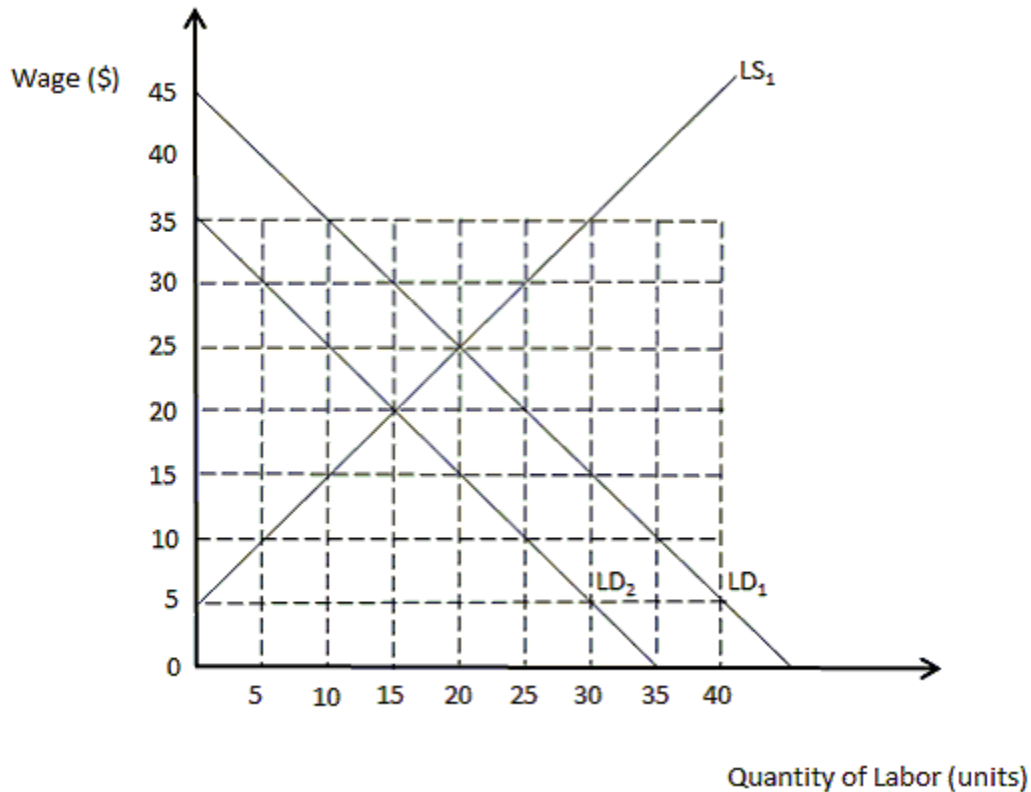
A) Firms usually tend to lay off workers than cut wages to reduce costs.

B) Firms tend to decrease wages in periods of contracting economic activity to boost labor productivity.

C) Firms usually tend to cut wages than lay off people to cut costs.

D) Firms tend to increase wages in periods of contracting economic activity to boost morale.

The following figure shows the labor demand curve, LD1, and labor supply curve, LS1, in a market. A month later, the labor demand curve shifts to LD2.



- 28) Refer to the figure above. If there is downward wage rigidity in the market, what will the unemployment in the market be after the demand curve shifts to LD2? 28) _____
- A) 15 units of labor B) 20 units of labor
C) 5 units of labor D) 10 units of labor
- 29) Refer to the figure above. If the wage is flexible, what will the unemployment in the market be after the demand curve shifts to LD2? 29) _____
- A) 0 units of labor B) 15 units of labor
C) 5 units of labor D) 10 units of labor
- 30) If the nominal interest rate in an economy is 4% and the real interest rate in the economy is 2%, the rate of inflation in the economy must be: 30) _____
- A) 0.5%. B) -2%. C) 4%. D) 2%.
- 31) Assuming all else equal, if there is an increase in the real interest rate: 31) _____
- A) there will be an upward movement along the credit demand curve.
B) there will be a downward movement along the credit demand curve.
C) the credit demand curve shifts to the left.
D) the credit demand curve shifts to the right.
- 32) Assuming all else equal, if a household is pessimistic about future income, it is likely to cause a(n): 32) _____
- A) shift in the current credit supply curve of the household to the right.
B) downward movement along the current credit supply curve of the household.
C) upward movement along the current credit supply curve of the household.
D) shift in the current credit supply curve of the household to the left.

- 33) Boilers Bank assets and liabilities at the beginning of the year are given by the following balance sheet

33) _____

Boilers Bank Balance Sheet

(Millions of Dollars)

Assets		Liabilities and Stockholders' equity	
Reserves	50	Demand deposits	450
Cash Equivalents	10	Borrowing from other Banks	150
Long-term investment	800	Total liabilities	600
Total assets	860	Stockholders' equity	260

Refer to Boilers Bank Balance Sheet above. Assume that, due to an economic downturn, several of the bank's customers defaulted on their loans and the value of Boilers Bank long term investment declines by 15%. What is the new value of boilers bank stockholders' equity after the decline in long term investment?

- A) 0 B) 140 C) 240 D) 720

- 34) Boilers Bank assets and liabilities at the beginning of the year are given by the following balance sheet

34) _____

Boilers Bank Balance Sheet

(Millions of Dollars)

Assets		Liabilities and Stockholders' equity	
Reserves	50	Demand deposits	450
Cash Equivalents	10	Borrowing from other Banks	150
Long-term investment	800	Total liabilities	600
Total assets	860	Stockholders' equity	260

Refer to Boilers Bank Balance Sheet above. Assume that customers of boiler bank made 5 million dollars in purchases using the bank's credit card. How does this transaction affect the bank's total assets.

- A) Total assests reamain unchanged B) Total assests increase by 5 million
C) Total assests decrease by 5 million D) Total assests increase by 10 million

- 35) How does the following transaction enter into the bank's balance sheet? A customer makes a loan payment of \$700; \$600 of the payment represents interest on the balance of the loan, and \$100 represents repayment of part of the principal of the loan.

35) _____

- A) +700 in Reserves; -600 in Long-term Investments; +100 in Stockholders' Equity
B) +700 in Reserves; -100 in Long-term Investments; +600 in Stockholders' Equity
C) +700 in Reserves; -700 in Long-term Investment
D) +700 in Long-term Investments; +700 in Stockholders' Equity

- 36) How does the following transaction enter into the bank's balance sheet? A customer makes a purchase of \$50 on Amazon using the bank's debit card. 36) _____
- A) -50 in Reserves; -50 in Demand Deposits
B) -50 in Reserves; +50 in Long-term Investments
C) -50 in Reserves; +50 in Short-term Borrowing
D) +50 in Reserves; +50 in Demand Deposits
- 37) An asset is liquid if: 37) _____
- A) its value is more likely to increase in future.
B) it can be easily converted into cash without loss of value.
C) its value does not change from day to day.
D) it offers a positive rate of interest.
- 38) A bank is solvent when: 38) _____
- A) the value of its total assets exceeds the value of its liabilities.
B) the value of its liabilities exceeds its stockholders' equity.
C) its stockholders' equity exceeds the value of its assets.
D) the value of its liabilities exceeds the value of its assets.
- 39) A bank run occurs when: 39) _____
- A) a bank experiences an extraordinarily large volume of withdrawals.
B) a bank sells its assets to its own stockholders.
C) the central monetary authority regulates the functioning of banks.
D) a bank's assets exceeds its liabilities.
- 40) Systemically important financial institutions are: 40) _____
- A) large banks that have become a large market power and are too big to fail.
B) all banks whose value of liabilities exceeds its value of assets and are likely to fail.
C) banks that are owned and run by the government.
D) all banks whose value of assets exceeds its value of liabilities.

Answer Key

Testname: ECON 252 MIDTERM 2 SAMPLE

- 1) D
- 2) A
- 3) C
- 4) D
- 5) A
- 6) A
- 7) A
- 8) A
- 9) B
- 10) A
- 11) B
- 12) C
- 13) D
- 14) A
- 15) B
- 16) B
- 17) C
- 18) A
- 19) B
- 20) C
- 21) B
- 22) A
- 23) D
- 24) C
- 25) C
- 26) A
- 27) A
- 28) D
- 29) A
- 30) D
- 31) A
- 32) A
- 33) B
- 34) A
- 35) B
- 36) A
- 37) B
- 38) A
- 39) A
- 40) A