

Name: \_\_\_\_\_ Date: \_\_\_\_\_

1. Which of the following would decrease national output?
  - A) a new idea to improve the production process
  - B) a natural disaster that destroys some capital
  - C) an increase in human capital
  - D) an increase in labor
  
2. The production function expresses a relationship between
  - A) capital stock and risk.
  - B) output and growth.
  - C) inflation and growth.
  - D) output and the factors of production.
  
3. In the Solow model, if the first unit of capital increases output by one unit, then the second unit of capital will cause total output to
  - A) increase, but by less than one unit.
  - B) double.
  - C) remain the same as with one unit of capital.
  - D) increase exponentially.
  
4. If output in an economy is 20, and the investment function is  $0.25Y$ ,
  - A) 16 units of output are being consumed.
  - B) 25 units of output are being invested.
  - C) 15 units of output are being consumed.
  - D) 20 units of output are being invested.
  
5. What is meant by the steady state level of capital?
  - A) All of a nation's capital is reinvested back into that country.
  - B) Positive net capital investment continues to drive growth at a steady rate.
  - C) There is no new net investment, or any growth.
  - D) Investment eventually exceeds depreciation.
  
6. In the long run, economic growth is driven by
  - A) physical capital.
  - B) human capital.
  - C) technological change.
  - D) All of the answers are correct.

7. Suppose we examine the economy of a small country and find that for each labor hour it has capital stock equaling 400 units. In the current year it will produce 20 units of new capital goods, and its depreciation rate is 5%. It is expected to have \_\_\_\_\_ growth over the next year if technological advancement occurs; otherwise it is expected to have \_\_\_\_\_.
- A) positive; no growth
  - B) positive; positive growth but less than the amount it would have with technological advancement
  - C) no; negative growth
  - D) negative; positive growth
8. A small country has an aggregate production function per hour of labor given by  $Y = K^{1/2}$ . Its depreciation rate is 5% and its investment rate is 25%. What is its steady state level of real GDP?
- A) 25
  - B) 5
  - C) 1.25
  - D) You need to know the steady state level of capital stock to answer this question.
9. The reason that the United States has experienced sustained economic growth for over 200 years is mostly due to which of the following?
- A) timely replacement of physical capital
  - B) continued advances in technological knowledge
  - C) steady increases in population
  - D) strategic government planning
10. If two countries have the same steady state levels of output, the country that is \_\_\_\_\_ today will \_\_\_\_\_ in per capita output.
- A) poorer; lag behind
  - B) poorer; catch up
  - C) richer; fall behind
  - D) richer; be farther ahead

## **Answer Key**

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