

Economics 101: Basic Economic Principles

Professor Clark

Problem Set #5 (due by **at the beginning of class on Friday, April 4<sup>th</sup>**)

This problem set covers chapters 27 & 29.

Instructions: Please **type** your answers to the following questions, making sure you include explanations where required. You are encouraged to work with a partner if you would like to. If you work in a group, be sure to include the names of your group members and hand in just one copy of the problem set for the group.

**Part I: Multiple Choice.**

Instructions: For each of the multiple choice questions, please include a short explanation with your answer and show your work.

1. Alejandro Scobertini owns a store specializing in soccer jerseys. In 2008, he purchased \$150,000 worth of jerseys from clothing manufacturers, employed one worker for \$40,000, purchased \$20,000 worth of supplies from an office supply store, and sold jerseys for \$280,000. Based on this information, what was the value added at Alejandro's store in 2008?
  - A. \$70,000.
  - B. \$280,000.
  - C. \$490,000.
  - D. \$110,000.
2. Official unemployment rate statistics may:
  - A. Overstate the amount of unemployment by including part-time workers in the calculations.
  - B. Understate the amount of unemployment by excluding part-time workers in the calculations.
  - C. Overstate the amount of unemployment because of the presence of "discouraged" workers who are not actively seeking employment.
  - D. Understate the amount of unemployment because of the presence of "discouraged" workers who are not actively seeking employment.
3. The best example of a "frictionally unemployed" worker is one who:
  - A. Reduces productivity by causing frictions in a business.
  - B. Is laid off during a recessionary period in the economy.
  - C. Is in the process of voluntarily switching jobs.
  - D. Is discouraged and not actively seeking work.
4. The consumer price index for a market basket of goods in year 1 in the country of Wonderland was 105. In year 2, the price index for the same market basket of goods increased to 111. What was Wonderland's rate of inflation during year 2?
  - A. 11 percent.
  - B. 6.0 percent.
  - C. 5.2 percent.
  - D. 5.7 percent.
5. Some economists prefer to use the term business fluctuations rather than business cycles to describe the historical growth record in the United States because:
  - A. Cycles include a trough phase while fluctuations do not.
  - B. Cycles imply regularity while fluctuations do not.
  - C. Fluctuations include an expansion phase while cycles do not.
  - D. Fluctuations are relatively predictable events.

6. Most economists agree that the immediate cause of the majority of cyclical changes in the level of real output is unexpected changes in the:

- A. Level of total spending.
- B. Rate of unemployment.
- C. Rate of inflation.
- D. Stock market price indexes.

7. The unemployment rate in an economy is 10%. The total population of the economy is 350 million, and the size of the civilian labor force is 200 million. The number of employed workers in this economy is:

- A. 20 million.
- B. 35 million.
- C. 315 million.
- D. 180 million.

8. Consider the following three economies, A, B, and C:

- Economy A: gross private domestic investment expenditures equal depreciation.
- Economy B: depreciation exceeds gross private domestic investment expenditures.
- Economy C: gross private domestic investment expenditures exceed depreciation.

Referring to the above information. Positive net private domestic investment expenditures occurs in:

- A. economy A only.
- B. economy B only.
- C. economy C only.
- D. economies A and B only.

## **Part II: Short Essay.**

1. Problem 2 on unemployment on p. 577 at the end of chapter 29.

2. Consider the following three scenarios. For each scenario, please i) identify the type of unemployment and ii) provide a one-two sentence explanation for your choice.

- A. Tamara works in an automotive assembly plant. She was laid off six months ago as the economy weakened. She expects to return to work in several months when national economic conditions improve.
- B. A worker loses her job at a petroleum refinery because consumers and business firms switch from the use of oil to the burning of coal.

3. Problem 4 on GDP, **part A only**, on p. 535 at the end of chapter 27.

4. A friend of yours, who has never studied Economics, is confused about how economists measure unemployment. They ask you a question about unemployment: Why might the official unemployment rate actually increase as an economic recovery *begins* (as we move from the “trough” to the early expansionary phase of the business cycle)? You gladly help your friend out by providing a simple, clear answer to their question. Your response should be *no longer than* 150 words (about 2/3 of a page, typed and double-spaced). Remember that your friend is a novice when it comes to Economics.