

Question 1

The relevance of formal economic models to real-world policy has been a topic of some dispute. The economists R. D. Norton and S. Y. Rhee achieved some success in applying such a model retrospectively to the Korean economy over a fourteen-year period; the model's figures for output, prices, and other variables closely matched real statistics. The model's value in policy terms, however, proved less clearcut. Norton and Rhee performed simulations in which, keeping long-term factors constant, they tried to pinpoint the effect of short-term policy changes.

Their model indicated that rising prices for imported oil would increase inflation; reducing exports by five percent would lower Gross Domestic Product and increase inflation; and slowing the growth of the money supply would result in slightly higher inflation.

These findings are somewhat startling.

Many economists have argued that reducing exports will lessen, not increase, inflation. And while most view escalating oil costs as inflationary, few would think the same of slower monetary growth. The Norton-Rhee model can perhaps be viewed as indicating the pitfalls of a formalist approach that stresses statistical "goodness of fit" at the expense of genuine policy relevance.

Q1: The author is primarily concerned with

- (A) proposing a new type of economic analysis
- (B) criticizing an overly formal economic model
- (C) advocating the use of statistical models in determining economic policy
- (D) suggesting an explanation for Korean inflation
- (E) determining the accuracy of Norton and Rhee's analysis

Q2: The author mentions "a fourteen-year period" (line 6) in order to

(A) indicate how far into the future Norton and Rhee's model can make accurate predictions

(B) acknowledge the accuracy of Norton and Rhee's model in accounting for past events

(C) explain the effect of reducing exports on inflation

(D) demonstrate the startling nature of Norton and Rhee's findings

(E) expose the flaws in Norton and Rhee's model

Q3: The most significant criticism leveled against Norton and Rhee's model is that it

(A) excludes key statistical variables

(B) is too abstract to be useful in policy making

(C) fails to adjust for Korea's high rate of inflation

(D) underestimates the importance of economic growth

(E) fails to consider the effect of short-term variations in the economy

Q4: It can be inferred that the most surprising finding of the Norton-Rhee study is that

(A) reducing exports would reduce inflation

(B) high oil prices worsen inflation

(C) an increase in exports can slow the rate of growth

(D) slower monetary expansion would worsen inflation

(E) long-term factors do not affect economic growth

Question 2

A basic principle of ecology is that population size is partly a reflection of available food

resources. Recent experiments suggest that the relationship is more complex than formerly thought. Specifically, the browsing of certain rodents appears to trigger chemical reactions in food plants which, in turn, affect the size of the rodent populations. Two examples of such regulation have been reported.

Berger has demonstrated the power of a naturally occurring chemical called 6-MBOA to stimulate reproductive behavior in the mountain vole, a small mouse-like rodent. 6-MBOA forms in young grass in response to browsing by voles. Berger experimented by feeding oats coated with 6-MBOA to non-breeding winter populations of voles. After three weeks, she found a high incidence of pregnancy among females. Since the timing of reproduction is crucial to the short-lived vole in an environment in which the onset of vegetative growth may be considerably delayed, the phytochemical triggering of reproductive behavior represents a significant biological adaptation.

In an example reported by Bryant, plants appear to have developed a phytochemical defense against the depredations of snowshoe hares in Canada. Every ten years, for reasons that are unclear, the hare population swells. The result is overbrowsing of certain deciduous trees and shrubs. Bryant found that trees favored by the hare produce young shoots high in terpene and phenolic resins, which discourage hare browsing. After treating non-resinous willow twigs with resinous extracts and placing treated and untreated samples at hare feeding stations, Bryant found that samples containing at least half of the resin concentration of natural twigs were untouched. The avoidance of resinous shoots, he concludes, may play a role in the decline of the hare population to normal levels. Both of these reports suggest areas for further research. For example, data should be reviewed to determine if periodic population explosions among lemmings (another small

rodent living in a northern environment) occur during years in which there is an early onset of vegetative growth; if so, a triggering mechanism similar to that prompted by the vole may be involved.

Q1: The author provides specific information to answer which of the following questions?

(A) What factors other than food supply affect the population size of rodents?

(B) Why is the timing of the voles' reproductive effort important?

(C) Are phytochemical reactions found only in northern environments?

(D) How does 6-MBOA trigger reproductive activity in the mountain vole?

(E) What are the causes of the periodic increase in the snowshoe hare population?

Q2: The passage describes the effect of 6-MBOA on voles as a "significant biological adaptation" (line 23) because it

(A) limits reproductive behavior in times of food scarcity

(B) prompts the vole population to seek new food sources

(C) supports species survival during periods of fluctuating food supply

(D) maximizes the number of offspring in individual litters

(E) minimizes territorial competition

Q3: Which of the following statements can be inferred about plant shoots containing large amounts of terpene and phenolic resins?

I. They serve as a form of natural defense.

II. Their growth is stimulated by increases in the hare population.

III. They are unappetizing to hares.

- (A) I only
- (B) II only
- (C) III only
- (D) I and III only
- (E) I, II, and III

Q4: It can be inferred that the study of lemmings proposed by the author would probably

- (A) strengthen the conclusions of Bryant
- (B) cast doubt on the conclusions of Bryant
- (C) support the specific findings of Berger
- (D) provide evidence as to whether Berger's conclusions can be generalized
- (E) disprove common beliefs about the relationship between population size and food supply

Q5: The author of the passage is primarily concerned with

- (A) reviewing findings about phytochemical regulation of rodent populations
- (B) outlining the role of 6-MBOA in regulating population size
- (C) summarizing knowledge on population size of rodents
- (D) explaining why earlier studies of population size were wrong
- (E) describing mechanisms used by plants to

protect themselves

Q6: Bryant's interpretation of the results of his experiment (lines 36–38) depends on which of the following assumptions?

(A) The response of hares to resinous substances may be different in nature than under experimental conditions.

(B) The periodic rise in the hare population is triggered by an unknown phytochemical response.

(C) Many hares will starve to death rather than eat resinous shoots.

(D) Hares alter their breeding behavior in response to the declining availability of food.

(E) Significant numbers of hares die from ingesting the resins in shoots.

Q7: The experiments described in the passage did each of the following EXCEPT

(A) measure changes in the behavior of test animals

(B) measure changes in the populations of experimental animals

(C) simulate a hypothesized phytochemical effect in nature

(D) measure the consumption of foods by test animals

(E) analyze the effects of food on breeding behavior

Question 3

There is an intriguing note to the current call upon civil rights law to help remedy the undervaluation of women's work. Until fairly recently, gov-

ernment was not expected to solve workers' economic grievances, however valid they might be.

Many assumed that the responsibility lay with workers themselves. Collective bargaining was the preferred instrument for pursuing pay equity for women. Rather than call upon the law to regulate the market from the outside, one could try to reshape or otherwise influence the market so that women themselves would be better able to address the problem. This could be done by raising absolute wage levels in low-paying, predominantly female industries (such as retail clothing) or by changing the pay relationship between largely female and largely male occupations within a single industry, such as auto manufacturing.

Through union representation, employees in traditionally female jobs in an industry could identify the actual degree of underpayment of their work and then, as a group, pressure their employer to remedy it. In addition, this process would encourage those affected—men and women alike—to be sensitive to the limits of available resources, to be pragmatic about the pace at which the wage structure could be revised.

I do not mean to suggest that collective bargaining is a foolproof means for closing the gender gap in wages. To the extent that the problem involves the undervaluation of nonunion female occupations in an otherwise unionized industry, political hurdles will discourage unionized employees from supporting revisions in the wage structure. And to the extent that the problem is the concentration of women in low-paying industries—textiles, for example—the product market

imposes serious economic constraints on a substantial closing of the wage gap.

Despite the imperfections of tools like collective bargaining for redressing wage disparities between men and women, a reliance on law or government is favorable for neither individual firms nor our economy as a whole. Nonetheless, although opponents of mandatory public remedies may correctly fear those remedies as being a cure worse than the disease, they are wrong when they imply that the current system of wage determination by business management is perfectly healthy.

Q1: In line 13, this most likely refers to

(A) increasing the wages of women and men in a single industry

(B) bringing about changes in market conditions

(C) changing the dynamic of collective bargaining

(D) relying on civil rights law to remedy economic grievances

(E) applying group pressure on an employer

Q2: According to the author, the process of unionization and collective bargaining could do all of the following EXCEPT

(A) overcome market pressures that keep wages in some industries lower than in others

(B) encourage worker flexibility in adjusting a new pay scale to economic conditions

(C) help workers to apply group pressure on

employers

(D) aid in determining the degree to which women are being underpaid

(E) sensitize workers to the limits of their industry's ability to institute change

Q3: Which of the following best summarizes the author's main point?

(A) Pay inequity for women exists because of the lack of unionization in traditionally female occupations.

(B) Government regulation of industry to achieve pay equity for women is unnecessary because management has the power to effectively determine wages.

(C) Unionization would solve all industry problems relating to the valuation of women's work.

(D) Government regulation of women's wages is necessary only in those industries where collective bargaining is ineffective.

(E) Collective bargaining is preferable to government actions in redressing the undervaluation of women's work.

Q4: The author mentions textiles (line 37) in order to

(A) demonstrate the potential harm of government regulation of industry

(B) outline a strategy for achieving pay equity for women

(C) indicate how quickly employees can reasonably expect to achieve pay equity

(D) give an example of a situation in which collective bargaining may be ineffective

(E) show why civil rights laws are the most important tool for increasing women's

wages

Q5: It can be inferred that the author's attitude toward opponents of government regulation of wage determination mentioned in the last paragraph is characterized by which of the following?

I. Distrust of their motives

II. Sympathy with some of their concerns

III. Disagreement with some of their assumptions

IV. Opposition to their political principles

(A) I only

(B) III only

(C) I and II only

(D) II and III only

(E) I, II, and IV

Question 4

The debt crisis affecting many developing countries has had three causes: imprudent management and borrowing by debtor countries; imprudent lending by banks; and rising interest rates. The rise in real interest rates to about 6 percent by 1982 increased the burden on borrowers and completely changed the nature of the debt problem. Such an increase had not been seen previously. In past debt crises, when loans were made at fixed rates, real interest rates rose with deflation. But once price levels stabilized, the interest burden would be higher only to the

extent of the proportional decline in price levels.

And it remained quite possible that inflation would eventually reduce the burden. In this crisis, though, the real interest rate has risen and stayed high, and inflation has brought no relief.

During the 1980s, fear of financial loss led U.S. commercial banks to sharply curtail their lending activity in debtor countries. In 1982, nine large banks had over 250 percent of their capital in loans to developing countries; by mid-1986, the nine banks had reduced their activities to the point where they had sufficient equity and reserves to withstand potential losses. Although banks have stabilized their positions, many continue to carry developing-country debt at face value.

Present bank strategies deal with the debt crisis by extending the effective maturity of loans.

Although any method that reduces the flow of resources from debtor countries will help in the short run, further lending promises little relief to the debt problem. So long as real interest rates remain high, developing countries will remain in debt. There are two choices. Either the piecemeal approach continues, or some form of debt relief occurs. For years, developing countries have paid the price of low growth and significant falls in real wages while making cash transfers to service their debt. Citizens of developing countries are

kept at low levels of income for the sake of capital gains for banks and their shareholders. With sensible debt relief, developing countries and lending institutions can begin to formulate growth-oriented development policies. This should be possible without increasing burdens on taxpayers in lender countries.

Q1: The primary purpose of this passage is to discuss

- (A) the causes of the debt crisis and potential solutions to it
- (B) the effects of rising interest rates
- (C) American banking in the 1980s
- (D) the future of banking in the U.S.
- (E) economic conditions in developing countries

Q2: The passage provides information that helps to answer which of the following questions?

- I. Did errors of economic management by developing countries contribute to the debt crisis?
- II. Are steps currently being taken to alleviate the debt crisis?
- III. Do taxpayers in lending countries support the notion of debt relief?

- (A) I only
- (B) II only
- (C) I and II only

- (D) II and III only
- (E) I, II, and III

Q4: Which of the following characterized responses to the debt crisis in the 1980s?

- (A) Increased pressure on debtor countries to pay interest due on loans
- (B) An increase in the percentage of their total capital large banks devoted to foreign loans
- (C) A decrease in the funds designated by banks to cover potential losses
- (D) Reliance by banks on inflationary pressure to reduce debt levels
- (E) A decline in bank lending and an increase in capital reserves