**Econ 252 Homework #2**

1. When the consumer price index rises, the typical family

|  |  |
| --- | --- |
| a. | has to spend more dollars to maintain the same standard of living. |
| b. | can spend fewer dollars to maintain the same standard of living. |
| c. | finds that its standard of living is not affected. |
| d. | can offset the effects of rising prices by saving more. |

ANS: A

2. Economists use the term inflation to describe a situation in which

|  |  |
| --- | --- |
| a. | some prices are rising faster than others. |
| b. | the economy's overall price level is rising. |
| c. | the economy's overall price level is high, but not necessarily rising. |
| d. | the economy's overall output of goods and services is rising faster than the economy's overall price level. |

ANS: B

3. The inflation rate is defined as the

|  |  |
| --- | --- |
| a. | price level in an economy. |
| b. | change in the price level from one period to the next. |
| c. | percentage change in the price level from the previous period. |
| d. | price level minus the price level from the previous period. |

ANS: C

4. The CPI is a measure of the overall cost of

|  |  |
| --- | --- |
| a. | the inputs purchased by a typical producer. |
| b. | the goods and services purchased by a typical consumer. |
| c. | the goods and services produced in the economy. |
| d. | the stocks on the New York Stock Exchange. |

ANS: B

5. In calculating the CPI, a fixed basket of goods and services is used. The quantities of the goods and services in the fixed basket are determined by

|  |  |
| --- | --- |
| a. | surveying consumers. |
| b. | surveying sellers of the goods and services. |
| c. | working backward from the rate of inflation to arrive at imputed values for those quantities. |
| d. | arbitrary choices made by federal government employees. |

ANS: A

6. What basket of goods and services is used to construct the CPI?

|  |  |
| --- | --- |
| a. | a random sample of all goods and services produced in the economy |
| b. | the goods and services that are typically bought by consumers as determined by government surveys |
| c. | only food, clothing, transportation, entertainment, and education |
| d. | the least expensive and the most expensive goods and services in each major category of consumer expenditures |

ANS: B

7. To calculate the CPI, the Bureau of Labor Statistics uses

|  |  |
| --- | --- |
| a. | the prices of all goods and services produced domestically. |
| b. | the prices of all final goods and services. |
| c. | the prices of all consumer goods. |
| d. | the prices of some consumer goods. |

ANS: D

8. In computing the consumer price index, a base year is chosen. Which of the following statements about the base year is correct?

|  |  |
| --- | --- |
| a. | The base year is always the first year among the years for which computations are being made. |
| b. | It is necessary to designate a base year only in the simplest case of two goods; in more realistic cases, it is not necessary to designate a base year. |
| c. | The value of the consumer price index is always 100 in the base year. |
| d. | The base year is always the year in which the cost of the basket was highest among the years for which computations are being made. |

ANS: C

9. Suppose a basket of goods and services has been selected to calculate the CPI and 2002 has been selected as the base year. In 2002, the basket’s cost was $50; in 2004, the basket’s cost was $52; and in 2006, the basket’s cost was $57.25. The value of the CPI in 2006 was

|  |  |
| --- | --- |
| a. | 91.6. |
| b. | 104.6. |
| c. | 109.2. |
| d. | 114.5. |

ANS: D

10. The price index was 120 in 2006 and 127.2 in 2007. What was the inflation rate?

|  |  |
| --- | --- |
| a. | 5.7 percent |
| b. | 6.0 percent |
| c. | 7.2 percent |
| d. | 27.2 percent |

ANS: B

11. When the relative price of a good decreases, consumers respond by buying

|  |  |
| --- | --- |
| a. | a larger quantity of that good and a larger quantity of substitutes for that good. |
| b. | a larger quantity of that good and a smaller quantity of substitutes for that good. |
| c. | a smaller quantity of that good and a larger quantity of substitutes for that good. |
| d. | a smaller quantity of that good and a smaller quantity of substitutes for that good. |

ANS: B

12. To which of the problems in the construction of the CPI is the invention of pocket-sized computers most relevant?

|  |  |
| --- | --- |
| a. | substitution bias |
| b. | introduction of new goods |
| c. | unmeasured quality change |
| d. | income bias |

ANS: B

13. Which of the following are residents of rich countries likely to have in greater quantities, or better quality, than residents of poor countries?

|  |  |
| --- | --- |
| a. | housing |
| b. | healthcare |
| c. | life expectancy |
| d. | All of the above. |

ANS: D

14. A nation's standard of living is best measured by its

|  |  |
| --- | --- |
| a. | real GDP. |
| b. | real GDP per person. |
| c. | nominal GDP. |
| d. | nominal GDP per person. |

ANS: B

15. The level of real GDP per person

|  |  |
| --- | --- |
| a. | differs widely across countries, but the growth rate of real GDP per person is similar across countries. |
| b. | is very similar across countries, but the growth rate of real GDP per person differs widely across countries. |
| c. | and the growth rate of real GDP per person are similar across countries. |
| d. | and the growth rate of real GDP per person vary widely across countries. |

ANS: D

16. If one wants to know how the material well-being of the average person has changed over time in a given country, one should look at the

|  |  |
| --- | --- |
| a. | level of real GDP. |
| b. | growth rate of nominal GDP. |
| c. | growth rate of real GDP. |
| d. | growth rate of real GDP per person. |

ANS: D

17. Last year real GDP in the imaginary nation of Oceania was 561.0 billion and the population was 2.2 million. The year before, real GDP was 500.0 billion and the population was 2.0 million. What was the growth rate of real GDP per person during the year?

|  |  |
| --- | --- |
| a. | 12 percent |
| b. | 10 percent |
| c. | 4 percent |
| d. | 2 percent |

ANS: D

18. Last year the imaginary nation of Freedonia had a population of 2,700 and real GDP of 16,200,000. This year it had a population of 2,500 and real GDP of 14,640,000. What was the growth rate of real GDP per person between last year and this year?

|  |  |
| --- | --- |
| a. | -2.4 percent |
| b. | -0.7 percent |
| c. | 4.4 percent |
| d. | 5.2 percent |

ANS: A

19. The one variable that stands out as the most significant explanation of large variations in living standards around the world is

|  |  |
| --- | --- |
| a. | productivity. |
| b. | population. |
| c. | preferences. |
| d. | prices. |

ANS: A

20. Which of the following is *not* correct?

|  |  |
| --- | --- |
| a. | Countries that have had higher output growth per person have typically done so without higher productivity growth. |
| b. | A country's standard of living and its productivity are closely related. |
| c. | Productivity refers to output produced per hour of work. |
| d. | Increases in productivity can be used to increase output or leisure. |

ANS: A

21. Over the last ten years productivity grew faster in Oceania than in Freedonia and the population and total hours worked remained the same in both countries. It follows that

|  |  |
| --- | --- |
| a. | real GDP per person must be higher in Oceania than in Freedonia. |
| b. | real GDP per person grew faster in Oceania than in Freedonia. |
| c. | the standard of living must be higher in Oceania than in Freedonia. |
| d. | All of the above are correct. |

ANS: B

22. Phoenix furniture uses 10 workers, each working eight hours, to produce 80 rocking chairs. What is Phoenix’s productivity?

|  |  |
| --- | --- |
| a. | 80 rocking chairs |
| b. | 10 rocking chairs per hour |
| c. | 1 rocking chair per hour |
| d. | 1 hour per rocking chair |

ANS: C

23. You and your friend work together for 4 hours to produce a total of 12 futons. What is your productivity?

|  |  |
| --- | --- |
| a. | 12 futons |
| b. | 24 futons |
| c. | 3 futons per hour of labor |
| d. | 1.5 futons per hour of labor |

ANS: D

24. Adam and Doug both build birdhouses. Adam works 20 hours a week and produces 12 bird houses. Doug works 30 hours a week and produces 15 bird houses. Which of the following is correct?

|  |  |
| --- | --- |
| a. | Adam’s production and productivity are higher than Doug’s. |
| b. | Adam’s production is higher than Doug’s, but Doug’s productivity is higher than Adam’s. |
| c. | Doug’s production is higher than Adam’s, but Adam’s productivity is higher than Doug’s. |
| d. | Doug’s production and productivity are higher than Adam’s. |

ANS: C

25. In 2009 Buckeye Brewing produced 1,000 bottles of ginger ale each day. It employed 10 workers each working 8 hours a day. In 2010 it produced 960 bottles of ginger ale each day employing 8 workers who worked 8 hours each day. Productivity at Buckeye Brewing

|  |  |
| --- | --- |
| a. | increased by 20%. |
| b. | increased by 16.67%. |
| c. | decreased by 1.67%. |
| d. | decreased by 40%. |

ANS: A

26. The saws, lathes, and drill presses that woodworkers at Cedar Valley Furniture use to produce furniture are called

|  |  |
| --- | --- |
| a. | human capital. |
| b. | physical capital. |
| c. | natural resources. |
| d. | technological knowledge. |

ANS: B

27. Human capital is the

|  |  |
| --- | --- |
| a. | knowledge and skills that workers acquire through education, training, and experience. |
| b. | stock of equipment and structures that is used to produce goods and services. |
| c. | total number of hours worked in an economy. |
| d. | same thing as technological knowledge. |

ANS: A

28. In the country of Suchnott, the price of silver increased from $30 per ounce to $32 per ounce during a time when the overall price level increased by 5 percent. During this period, the real price of silver

|  |  |
| --- | --- |
| a. | increased. |
| b. | decreased. |
| c. | stayed the same. |
| d. | might have increased, decreased or stayed the same; more information is needed to be sure. |

ANS: A

29. When opening a print shop you need to buy printers, computers, furniture, and similar items. Economists call these expenditures

|  |  |
| --- | --- |
| a. | capital investment. |
| b. | investment in human capital. |
| c. | business consumption expenditures. |
| d. | personal saving. |

ANS: A

30. When a country saves a larger portion of its GDP than it did before, it will have

|  |  |
| --- | --- |
| a. | more capital and higher productivity. |
| b. | more capital and lower productivity. |
| c. | less capital and higher productivity. |
| d. | less capital and lower productivity. |

ANS: A

31. The primary economic function of the financial system is to

|  |  |
| --- | --- |
| a. | keep interest rates low. |
| b. | provide expert advice to savers and investors. |
| c. | match one person’s consumption expenditures with another person’s capital expenditures. |
| d. | match one person’s saving with another person’s investment. |

ANS: D

32. The fact that borrowers sometimes default on their loans by declaring bankruptcy is directly related to the characteristic of a bond called

|  |  |
| --- | --- |
| a. | credit risk. |
| b. | interest risk. |
| c. | term risk. |
| d. | private risk. |

ANS: A

33. Which of the following statements is correct?

|  |  |
| --- | --- |
| a. | A corporation receives a monetary payment every time its shares of stock are traded by stockholders on organized stock exchanges. |
| b. | When a corporation sells bonds as a means of raising funds it is engaging in debt finance. |
| c. | A share of stock is an IOU. |
| d. | The two most important financial markets in the economy are the stock market and financial intermediaries. |

ANS: B

34. Which of the following is a financial-market transaction?

|  |  |
| --- | --- |
| a. | A saver buys shares in a mutual fund. |
| b. | A saver deposits money into a credit union. |
| c. | A saver buys a bond a corporation has just issued so it can purchase capital. |
| d. | None of the above is correct. |

ANS: C

35. A bond buyer is a

|  |  |
| --- | --- |
| a. | saver. Bond buyers must hold their bonds until maturity. |
| b. | saver. Bond buyers may sell their bonds prior to maturity. |
| c. | borrower. Bond buyers must hold their bonds until maturity. |
| d. | borrower. Bond buyers may sell their bonds prior to maturity. |

ANS: B

36. On which of these bonds is the prospect of default least likely?

|  |  |
| --- | --- |
| a. | a junk bond |
| b. | a bond issued by the state of Arizona |
| c. | a bond issued by the federal government |
| d. | a bond issued by General Electric Corporation |

ANS: C

37. Nastech Pharmaceuticals announced it has developed a nasal spray that would reduce hunger cravings. Other things the same we would expect

|  |  |
| --- | --- |
| a. | the demand for existing shares of stock in this company to decrease, so the price would fall. |
| b. | the demand for existing shares of stock in this company to increase, so the price would rise. |
| c. | the supply of existing shares of stock in this company to decrease, so the price would fall. |
| d. | the supply of existing shares of stock in this company to increase, so the price would rise. |

ANS: B

38. In 2008, XYZ Corporation had total earnings of $200 million and 50 million shares of the corporation’s stock were outstanding. If the price-earnings ratio for XYZ is 20, then what is the price of a share of its stock?

|  |  |
| --- | --- |
| a. | $5 |
| b. | $10 |
| c. | $80 |
| d. | $500 |

ANS: C

39. If the tax revenue of the federal government exceeds spending, then the government necessarily

|  |  |
| --- | --- |
| a. | runs a budget deficit. |
| b. | runs a budget surplus. |
| c. | runs a national debt. |
| d. | will increase taxes. |

ANS: B

40. Cassie purchases 1,000 shares of a mutual fund for $1,000. Cassie’s purchase of these shares contributes $1,000 to which magnitude in the identity *Y* = *C* + *I* + *G*?

|  |  |
| --- | --- |
| a. | *C* |
| b. | *I* |
| c. | *G* |
| d. | None of the above are correct. |

ANS: D

41. Suppose you will receive $500 at some point in the future. If the annual interest rate is 7.5 percent, then the present value of the $500 is

|  |  |
| --- | --- |
| a. | $411.26 if the $500 is to be received in 5 years and $338.95 if the $500 is to be received in 10 years. |
| b. | $348.28 if the $500 is to be received in 5 years and $242.60 if the $500 is to be received in 10 years. |
| c. | $291.11 if the $500 is to be received in 5 years and $272.89 if the $500 is to be received in 10 years. |
| d. | $291.11 if the $500 is to be received in 5 years and $236.49 if the $500 is to be received in 10 years. |

ANS: B

42. Susan put $375 into an account and one year later had $405. What interest rate was paid on Susan’s deposit?

|  |  |
| --- | --- |
| a. | 5 percent |
| b. | 7 percent |
| c. | 8 percent |
| d. | 10 percent |

ANS: C

43. Sage decides to cash in all his savings to open a recording studio. He has three accounts to cash in. The first earned 9 percent for two years. The second earned 6 percent for three years. And the last earned 3 percent for six years. Supposing he started with $5,000 in each account, from which account will he get the most cash?

|  |  |
| --- | --- |
| a. | the two-year account at 9 percent |
| b. | the three-year account at 6 percent |
| c. | the six-year account at 3 percent |
| d. | The accounts are all worth the same. |

ANS: C

44. Which of the following has a present value of $100?

|  |  |
| --- | --- |
| a. | $110 in two years when the interest rate is 5 percent |
| b. | $112.36 in two years when the interest rate is 6 percent |
| c. | $117.49 in two years when the interest rate is 7 percent |
| d. | None of the above are correct to the nearest cent. |

ANS: B

45. HydroGrow is considering building a new greenhouse in which to grow tomatoes. The board meets and decides that this is the right thing to do. Before they can put their plans into action, the interest rate increases. The present value of the returns from this investment project

|  |  |
| --- | --- |
| a. | is now lower than it was before, and so Hydro Grow is less likely to build the building. |
| b. | is now lower than it was before, and so HydroGrow is more likely to build the building. |
| c. | is now higher than it was before, and so HydroGrow is less likely to build the building. |
| d. | is now higher than it was before, and so HydroGrow is more likely to build the building. |

ANS: A

46. Halvorson Construction has an investment project that would cost $150,000 today and yield a one-time payoff of $167,000 in three years. What is the highest interest rate at which Halvorson would find this project profitable?

|  |  |
| --- | --- |
| a. | 7% |
| b. | 6% |
| c. | 5% |
| d. | It is not profitable at any of these interest rates. |

ANS: D

47. A firm has three different investment options, each costing $10 million. Option A will generate $12 million in revenue at the end of one year. Option B will generate $15 million in revenue at the end of two years. Option C will generate $18 million in revenue at the end of three years. Which option should the firm choose?

|  |  |
| --- | --- |
| a. | Option A |
| b. | Option B |
| c. | Option C |
| d. | The answer depends on the rate of interest, which is not specified here. |

ANS: D

48. Yoyo's Frozen Yogurt, Inc. is thinking of building a new warehouse. They believe that this will give them $50,000 of additional revenue at the end of one year, $60,000 additional revenue at the end of two years, and $70,000 in additional revenue at the end of three years. If the interest rate is 5 percent, Yoyo would be willing to pay

|  |  |
| --- | --- |
| a. | $140,000, but not $150,000. |
| b. | $150,000, but not $160,000. |
| c. | $160,000, but not $170,000. |
| d. | $170,000, but not $180,000. |

ANS: C

49. If the interest rate is *r* percent, then the rule of 70says that your savings will double about every

|  |  |
| --- | --- |
| a. | 70/(1 - *r*) years. |
| b. | 70/(1 + *r*) years. |
| c. | 70/*r* years. |
| d. | 70(1 + *r*)/*r* years. |

ANS: C

50. You could borrow $1,000 today from Bank A and repay the loan, with interest, by paying Bank A $1,060 one year from today. Or, you could borrow $1,500 today from Bank B and repay the loan, with interest, by paying Bank B $1,600 one year from today. Which of the following statements is correct?

|  |  |
| --- | --- |
| a. | The interest rate on the loan from Bank A is higher than the interest rate on the loan from Bank B. |
| b. | The interest rate on the loan from Bank A is lower than the interest rate on the loan from Bank B. |
| c. | The interest rates on the two loans are the same. |
| d. | There is not enough information to determine which loan has the higher interest rate. |

ANS: B