Production and Growth

Problem 1. Productivity is the amount of goods and services

(a) an economy produces. It is not linked to a nations economic policies.

(b) an economy produces. It is linked to a nations economic policies.

(c) produced for each hour of a workers time. It is not linked to a nations economic policies.

(d) produced for each hour of a workers time. It is linked to a nations economic policies.

Problem 2. Last year the imaginary nation of Freedonia had a population of 2,800 and real GDP of 16,800,000. This year it had a population of 2,700 and real GDP of 15,390,000. About what was the growth rate of real GDP per person between last year and this year?

(a) -5.3 percent

(b) -5 percent

(c) 5 percent

(d) 5.3 percent

Problem 3. Which of the following statements is true?

(a) Productivity is calculated as hours worked divided by output produced.

(b) Americans have a higher standard of living than Indonesians because American workers are more productive than Indonesian workers.

(c) Both A and B are correct.

(d) None of the above are correct.

Problem 4. Country A had a population of 1,000, of whom 600 worked an average of 8 hours a day and had a productivity of 2.5. Country B had a population of 800, of whom 560 worked 8 hours a day and had productivity of 3.0. Country

(a) A had the higher level of real GDP and real GDP per person.

(b) A had the higher level of real GDP and Country B had the higher level of real GDP per person

(c) B had the higher level of real GDP and Country A had the higher level of real GDP per person

(d) B had the higher level of real GDP and real GDP per person.

Problem 5. 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.

Problem 6. Which of the following is correct?

(a) Once adjustment is made for inflation, prices of most natural resources have been steady or falling.
(b) Technological progress allows us to substitute renewable resources for some nonrenewable resources.
(c) Technological progress has made once-crucial natural resources less necessary.
(d) All of the above are correct.

Problem 7. The slope of the production function with capital per worker on the horizontal axis and output per worker on the vertical axis

(a) is positive and gets steeper as capital per worker rises.
(b) is positive and gets flatter as capital per worker rises.
(c) is negative and gets steeper as capital per worker rises.
(d) is negative and gets flatter as capital per worker rises.

Problem 8. The logic behind the ~~ketchup~~ catch-up effect is that

(a) workers in countries with low incomes will work more hours than workers in countries with high incomes.
(b) the capital stock in rich countries deteriorates at a higher rate because it already has a lot of capital.
(c) new capital adds more to production in a country that doesn't have much capital than in a country that already has much capital.
(d) None of the above is correct.

Savings, Investment, and the Market for Loanable Funds

Problem 9. 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 persons consumption expenditures with another persons capital expenditures.
(d) match one persons saving with another persons investment.

Problem 10. A national chain of grocery stores wants to finance the construction of several new stores. The firm has limited internal funds, so it likely will

(a) demand the required funds by buying bonds.
(b) demand the required funds by selling bonds.
(c) supply the required funds by buying bonds.
(d) supply the required funds by selling bonds.

Problem 11. Other things the same, which bond would you expect to pay the lowest interest rate?

(a) a bond issued by a state with a very good credit rating
(b) a bond issued by the U.S. government
(c) a bond issued by a fairly new company doing genetic research
(d) a bond issued by Nabisco

Problem 12. A stock index is

(a) an average of a group of stock prices.
(b) an average of a group of stock yields.
(c) a measure of the risk relative to the profitability of corporations.
(d) a report in a newspaper or other media outlet on the price of the stock and earnings of the corporation that issued the stock.

Problem 13. When public saving falls by $2b and private saving falls by $1b in a closed economy,

(a) investment falls by $1b.
(b) investment falls by $3b.
(c) investment increases by $1b.
(d) investment falls by $2b.

Problem 14. Which of the following would a macroeconomist consider as investment?

(a) Marisa purchases a bond issued by Proctor and Gamble Corp.
(b) Karlee purchases stock issued by Texas Instruments, Inc.
(c) Charlie builds a new coffee shop.
(d) All of the above are correct.

Problem 15. Which of the following statements is correct?

(a) The interest rate that is usually reported is the interest rate that has been corrected for inflation.
(b) The supply of, and demand for, loanable funds depend on the real (rather than nominal) interest rate.
(c) If the nominal interest rate has decreased and the real interest rate has also decreased, then the inflation rate must have decreased as well.
(d) All of the above are correct.

Problem 16. As real interest rates fall, firms desire to

(a) buy more new equipment and buildings. This response helps explain why the supply of loanable funds is upward sloping.
(b) buy more new equipment and buildings. This response helps explain why the demand for loanable funds is downward sloping.
(c) buy less new equipment and buildings. This response helps explain why the supply of loanable funds is upward sloping.
(d) buy less new equipment and buildings. This response helps explain why the demand for loanable funds is downward sloping.