

Production and Growth

Problem 1. Productivity is the amount of goods and services

- (a) an economy produces. It is not linked to a nation's economic policies.
- (b) an economy produces. It is linked to a nation's economic policies.
- (c) produced for each hour of a worker's time. It is not linked to a nation's economic policies.
- (d) produced for each hour of a worker's time. It is linked to a nation's 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 ~~catchup~~ 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 person's consumption expenditures with another person's capital expenditures.
- (d) match one person's saving with another person's 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.