

NAME: _____ Student ID: _____



College of Business Administration
Department of Economics
Principles of Macroeconomics
O. Mikhail
ECO 2013 - 0008
Spring 2004

QUIZ II – Version 1

- This closed book QUIZ is worth 100 points.
The exam totals 40 Multiple-Choice questions and 2 Short-Essay questions.
Each Multiple-Choice question is worth 2.25 points.
The Short-Essay questions are worth 10 points.
Allocate your time accordingly.
- Including the cover page, the exam totals 11 pages.
- DO NOT forget to write your name and your student id on the exam booklet.
- Non-Programmable calculators and language dictionaries are allowed.
- At the end of the exam, hand-in the exam booklet and the computer sheet to the examiner.

February 11, 2004

4:35 p.m. – 5:40 p.m.

BA 2-210

Multiple-Choice Questions (90 points)

1. "If Congress cuts income taxes, demand for output is likely to increase" is a _____ statement about _____ policy.
 - a) positive; structural
 - b) normative; monetary
 - c) positive; monetary
 - d) positive; fiscal
 - e) normative; fiscal

2. If its exports are greater than its imports, then a country has a:
 - a) trade balance.
 - b) trade deficit.
 - c) trade surplus.
 - d) government budget surplus.
 - e) government budget deficit.

3. Data for an economy shows that the unemployment rate is 6%, the participation rate 60 percent, 200 million people 16 years or older are not in the labor force. How many people are employed in this economy?
 - a) 300 million
 - b) 6 million
 - c) 500 million
 - d) 282 million
 - e) 188 million

4. A trade imbalance occurs when:
 - a) a country trades a great quantity with one country, but a significantly smaller amount with other countries.
 - b) a country does not import or export any goods or services.
 - c) exports from and imports to a country suddenly decline.
 - d) the quantity of imports equals the quantity of exports, but are large relative to total output.
 - e) the quantity of a country's exports differs significantly from the quantity of imports.

5. If tax revenues equal 25 percent of total output and government expenditures equal 20 percent of total output, then there is a:
 - a) trade imbalance
 - b) trade deficit
 - c) trade surplus
 - d) budget deficit
 - e) budget surplus

6. The value-added method eliminates the problem of:
- a) inflation when comparing GDP over time.
 - b) dividing the value of a final good or service between two periods.
 - c) aggregation.
 - d) determining whether capital is a final good or intermediate good.
 - e) differentiating between final and intermediate goods and services.
7. Which of the following is an example of an intermediate good?
- a) A metal-stamping machine used to produce cars sold to an automaker
 - b) A new CD player sold to a teenager
 - c) A two-year-old car sold to a family
 - d) A new CD player sold to an automaker for installation in a car
 - e) A new car sold to a family
8. To aggregate 500,000 tons of steel, 4 million bushels of corn, and 133,000 gallons of heating oil, economists add together the _____ of the three products.
- a) weight
 - b) physical volume
 - c) number of tons, bushels, and gallons
 - d) units
 - e) dollar value
9. Compared to the 1950-1973 period, output per worker _____ in the 1973-1995 period.
- a) decreased more slowly
 - b) increased more rapidly
 - c) decreased more rapidly
 - d) increased more slowly
 - e) increased at the same rate as
10. Final goods and services are _____ production and _____ counted in GDP.
- a) used up in the process of ; are
 - b) the end product of; are
 - c) transformed in; are not
 - d) the end product of; are not
 - e) used up in the process of; are not

11. The value added by any firm equals the firm's _____ from selling the product minus _____.
- a) revenue; taxes
 - b) profits; the cost of inputs purchased from other firms
 - c) revenue; the cost of inputs purchased from other firms
 - d) revenue; expenses
 - e) profits; expenses
12. The unemployment rate in the United States at the peak of the Great Depression was _____ percent.
- a) 10 b) 25 c) 5 d) 50 e) 15
13. Suppose that the total production of an economy consists of 10 oranges and 5 candy bars, each orange sells for \$0.20, and each candy bar sells for \$1.00. What is the market value of production in this economy?
- a) \$5.00 b) \$1.20 c) \$7.00 d) \$11.00 e) \$2.00
14. Real GDP is measured in _____ prices and nominal GDP is measured in _____ prices.
- a) current; current
 - b) base-year; base-year
 - c) base-year; current
 - d) current; market
 - e) current; base-year
15. An economy produces only 500,000 tables valued at \$100 each. Of these 100,000 are sold to consumers, 200,000 are sold to businesses, 100,000 are sold to the government, and 50,000 are sold abroad. No tables are imported. The unsold tables at the end of the year are held in inventory by the table manufacturers. What is value of the investment component of GDP?
- a) \$20 million b) \$2 billion c) \$25 million d) \$50 million e) \$10 million

16. Which of the following is included when using the expenditure method to measure GDP?
- a) Gross private domestic investment
 - b) Capital income
 - c) Net interest on the government debt
 - d) Labor income
 - e) Corporate profits
17. The strength of aggregation is that it helps to reveal the "big picture," but its weakness is that it:
- a) involves the values of the person doing the analysis.
 - b) may obscure important details.
 - c) adds together "apples and oranges."
 - d) gives excess importance to the details.
 - e) add together data on different individuals.
18. Output per person is closely linked to average _____ and output per worker measures average _____.
- a) aggregation; production
 - b) consumption; employment
 - c) consumption; production
 - d) consumption; aggregation
 - e) production; consumption
19. If a pizza maker pays \$1 for tomatoes, \$1 for cheese, \$2 for sausage, and sells the pizza made with these ingredients for \$7, then each pizza sold contributes how much to GDP?
- a) \$4 b) \$9 c) \$11 d) \$7 e) \$3
20. Profits, rents, interest, and royalties are examples of:
- a) capital income.
 - b) consumption.
 - c) investment.
 - d) transfer payments
 - e) labor income.
21. ALL of the following describe economic conditions during the Great Depression in the United States EXCEPT:
- a) large layoffs of workers.
 - b) low levels of production.
 - c) a sharp decline in stock prices.
 - d) high rates of unemployment.
 - e) high rates of inflation.

- 27.** The participation rate is the number of people:
- a) employed and unemployed divided by the population aged 16 years and older.
 - b) employed divided by the population aged 16 years and older.
 - c) employed and unemployed divided by the labor force.
 - d) employed and unemployed.
 - e) employed divided by the labor force.
- 28.** The unemployment rate is the:
- a) number of workers in the labor force.
 - b) percentage of the labor force that is out of work.
 - c) number of workers unemployed.
 - d) percentage of the population that is out of work.
 - e) number of workers minus those without a job.
- 29.** The four categories of final users of GDP are:
- a) businesses, corporations, firms, and farms.
 - b) firms, farms, the foreign sector, and the Federal Reserve.
 - c) households, the Federal Reserve, governments, and the foreign sector.
 - d) businesses, firms, governments, and the foreign sector.
 - e) households, firms, governments, and the foreign sector.
- 30.** Our standard of living is directly tied to economic growth because:
- a) in most cases economic growth brings an improvement in the average person's standard of living.
 - b) everyone in society shares equally in the fruits of economic growth.
 - c) a higher standard of living causes an increase in economic growth.
 - d) the two terms are synonymous.
 - e) the government can only improve people's standard of living if the economy is growing.

- 31.** If total output increases from \$1 trillion to \$2 trillion as population increases from 100 million to 250 million, then output per person:
- a) remains constant.
 - b) is halved.
 - c) decreases, but by less than 100 percent.
 - d) increases, but by less than 100 percent.
 - e) doubles.
- 32.** All of the following are examples of positive statements EXCEPT:
- a) Economic output should not be allowed to increase too fast.
 - b) Historically higher rates of money growth are associated with higher rates of inflation.
 - c) When inflation is high, interest rates tend to be high.
 - d) Higher interest rates reduce construction activity.
 - e) Higher interest rates are achieved by slowing the growth of the money supply.
- 33.** Which of the following statements is positive?
- a) A tax cut that benefits low-income households is acceptable.
 - b) Higher taxes are needed to support education.
 - c) When the Federal Reserve increases the money supply, interest rates decrease.
 - d) The Federal Reserve should increase interest rates to slow down the economy.
 - e) Large budget deficits should be avoided.
- 34.** An unemployment spell begins when a worker:
- a) starts to actively look for employment and ends when he/she finds a new job.
 - b) becomes discouraged and stops seeking employment and ends when he/she begins to actively look for employment.
 - c) is not working and starts to actively look for employment and ends when he/she finds a new job or leaves the labor force.
 - d) loses his/her job and ends when he/she finds a new job or leaves the labor force.
 - e) loses his/her job and ends when he/she finds a new job.

- 39.** Aggregation allows economists to _____ at the cost of _____.
- a)** see the details; obscuring the big picture
 - b)** see the big picture; obscuring the details
 - c)** make positive statements; ignoring normative analysis
 - d)** make normative statements; ignoring positive analysis
 - e)** study monetary policy issues; neglecting fiscal policy issues
- 40.** The value of output was \$100 billion in Northland and \$200 billion in Southland. The population of Northland was 50 million and the population of Southland was 30 million. There were 30 million employed workers in Northland and 20 million employed workers in Southland. Average labor productivity was higher in _____ and the standard of living was _____.
- a)** Southland; higher in Southland
 - b)** Southland; the same in both countries
 - c)** Northland; higher in Northland
 - d)** Southland; higher in Northland
 - e)** Northland; the same in both countries

Answer Key – ECO 2013 – Section 0008 – QUIZ II – Version 1

1. d
2. c
3. d
4. e
5. e
6. b
7. d
8. e
9. d
10. b
11. c
12. b
13. c
14. c
15. c
16. a
17. b
18. c
19. d
20. a
21. e
22. a
23. b
24. d
25. e
26. e
27. a
28. b
29. e
30. a
31. c
32. a
33. c
34. c
35. e
36. a
37. b
38. b
39. b
40. a

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Short-Essay Questions (10 points)

Answer in the given space below each question.

Question 1 (5 points)

Is it possible for average living standards to rise during a period in which average labor productivity is falling? Discuss, using a numerical example for illustration.

Solution

It's possible, if the decline in average labor productivity (output per worker) is offset by an increased share of the population that is employed. For a simple example, suppose an economy has two people, one of whom is working. The one worker produces 10 units of output, so average labor productivity is 10. Output per person ($10/2$) is 5. Now suppose that average labor productivity drops to 8 but both people are working. Then total output is 16 and output per person is 8, so average living standards (output per person) rise even though average labor productivity (output per employed worker) has fallen.

Question 2 (5 points)

Define 'Green GDP'? State why it is useful?

Solution

It refers to GDP that includes environmental quality measures. It is more useful than GDP as an indicator for the standard of living.