

NAME: _____ Student ID: _____



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

QUIZ II – Version 2

- 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. In Econland total output is \$8 billion, population equals 500,000 people, and, of these, 400,000 are employed workers. Output per person in Econland equals _____ and average labor productivity equals _____.
 - a) \$16,000; \$20,000
 - b) \$20,000; \$16,000
 - c) \$16; \$20
 - d) \$20,000; \$20,000
 - e) \$16,000; \$16,000

2. Profits, rents, interest, and royalties are examples of:
 - a) labor income.
 - b) transfer payments
 - c) investment.
 - d) consumption.
 - e) capital income.

3. Which of the following is included when using the expenditure method to measure GDP?
 - a) Capital income
 - b) Labor income
 - c) Net interest on the government debt
 - d) Gross private domestic investment
 - e) Corporate profits

4. An unemployment spell begins when a worker:
 - a) starts to actively look for employment and ends when he/she finds a new job.
 - b) losses his/her job and ends when he/she finds a new job.
 - c) becomes discouraged and stops seeking employment and ends when he/she begins to actively look for employment.
 - d) losses his/her job and ends when he/she finds a new job or leaves the labor force.
 - e) is not working and starts to actively look for employment and ends when he/she finds a new job or leaves the labor force.

5. 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 Northland d) Northland; higher in Northland
b) Northland; the same in both countries e) Southland; higher in Southland
c) Southland; the same in both countries
6. Which of the following is an example of an intermediate good?
- a) A two-year-old car sold to a family
b) A new car sold to a family
c) A new CD player sold to a teenager
d) A metal-stamping machine used to produce cars sold to an automaker
e) A new CD player sold to an automaker for installation in a car
7. 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) 282 million b) 300 million c) 500 million d) 6 million e) 188 million
8. In Econland exports equal 25% of total output, while imports equal 20% of total output. Econland has:
- a) a trade surplus. d) a budget surplus.
b) a trade deficit. e) a budget deficit.
c) balanced trade.
9. Aggregation allows economists to _____ at the cost of _____.
- a) see the big picture; obscuring the details
b) see the details; obscuring the big picture
c) make positive statements; ignoring normative analysis
d) study monetary policy issues; neglecting fiscal policy issues
e) make normative statements; ignoring positive analysis

- 10.** If tax revenues equal 25 percent of total output and government expenditures equal 20 percent of total output, then there is a:
- a) trade surplus
 - b) trade imbalance
 - c) trade deficit
 - d) budget deficit
 - e) budget surplus
- 11.** Final goods and services are _____ production and ____ counted in GDP.
- a) the end product of; are not
 - b) transformed in; are not
 - c) the end product of; are
 - d) used up in the process of ; are
 - e) used up in the process of; are not
- 12.** Output per person is closely linked to average _____ and output per worker measures average _____.
- a) consumption; aggregation
 - b) aggregation; production
 - c) production; consumption
 - d) consumption; production
 - e) consumption; employment
- 13.** If total output increases from \$1 trillion to \$2 trillion as population increases from 100 million to 250 million, then output per person:
- a) is halved.
 - b) decreases, but by less than 100 percent.
 - c) doubles.
 - d) remains constant.
 - e) increases, but by less than 100 percent.
- 14.** If its exports are greater than its imports, then a country has a:
- a) trade balance.
 - b) trade surplus.
 - c) trade deficit.
 - d) government budget deficit.
 - e) government budget surplus.

- 20.** The value added by any firm equals the firm's _____ from selling the product minus _____.
- a) profits; expenses
 - b) profits; the cost of inputs purchased from other firms
 - c) revenue; taxes
 - d) revenue; expenses
 - e) revenue; the cost of inputs purchased from other firms
- 21.** In Econland population increased from 1 million to 1.1 million, the number of employed workers increased from 500,000 to 600,000, but average labor productivity decreased from \$20,000 per worker per year to \$19,000 per worker per year. Total output in Econland _____ and the average standard of living _____.
- a) decreased; increased
 - b) increased; decreased
 - c) decreased; decreased
 - d) increased; remained constant
 - e) increased; increased
- 22.** A trade imbalance occurs when:
- a) the quantity of imports equals the quantity of exports, but are large relative to total output.
 - b) a country does not import or export any goods or services.
 - c) the quantity of a country's exports differs significantly from the quantity of imports.
 - d) a country trades a great quantity with one country, but a significantly smaller amount with other countries.
 - e) exports from and imports to a country suddenly decline.
- 23.** The value-added method eliminates the problem of:
- a) dividing the value of a final good or service between two periods.
 - b) determining whether capital is a final good or intermediate good.
 - c) aggregation.
 - d) inflation when comparing GDP over time.
 - e) differentiating between final and intermediate goods and services.

24. All of the following are examples of positive statements EXCEPT:
- a) Historically higher rates of money growth are associated with higher rates of inflation.
 - b) Economic output should not be allowed to increase too fast.
 - c) Higher interest rates reduce construction activity.
 - d) When inflation is high, interest rates tend to be high.
 - e) Higher interest rates are achieved by slowing the growth of the money supply.
25. Compared to the 1950-1973 period, output per worker _____ in the 1973-1995 period.
- a) increased more slowly
 - b) decreased more slowly
 - c) decreased more rapidly
 - d) increased more rapidly
 - e) increased at the same rate as
26. 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) \$11.00
 - d) \$2.00
 - e) \$7.00
27. Real GDP is measured in _____ prices and nominal GDP is measured in _____ prices.
- a) base-year; base-year
 - b) current; market
 - c) current; base-year
 - d) base-year; current
 - e) current; current
28. 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) physical volume
 - b) dollar value
 - c) number of tons, bushels, and gallons
 - d) units
 - e) weight

- 29.** Jim Brown would like to work, but has not looked for work in the past four weeks because he does not believe any jobs are available. In the official employment statistics, Jim is classified as:
- a) unemployed.
 - b) out of the population.
 - c) underemployed.
 - d) out of the labor force.
 - e) employed.
- 30.** The four categories of final users of GDP are:
- a) businesses, corporations, firms, and farms.
 - b) households, firms, governments, and the foreign sector.
 - c) firms, farms, the foreign sector, and the Federal Reserve.
 - d) businesses, firms, governments, and the foreign sector.
 - e) households, the Federal Reserve, governments, and the foreign sector.
- 31.** The unemployment rate in the United States at the peak of the Great Depression was _____ percent.
- a) 15
 - b) 50
 - c) 10
 - d) 5
 - e) 25
- 32.** The most commonly used measure of an economy's output is:
- a) gross domestic product.
 - b) the rate of employment.
 - c) the Dow Jones stock market index.
 - d) the rate of inflation.
 - e) average labor productivity
- 33.** 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) a higher standard of living causes an increase in economic growth.
 - c) the two terms are synonymous.
 - d) everyone in society shares equally in the fruits of economic growth.
 - e) the government can only improve people's standard of living if the economy is growing.

34. Suppose a jar of orange marmalade that is ultimately sold to a customer at The Corner Store is produced by the following production process:

Name of Company	Revenues	Cost of Purchased Inputs
Citrus Growers Inc.	\$0.75	0
Florida Jam Company	\$2.00	\$.75
The Corner Store	\$2.50	\$2.00

If the oranges were grown and the jam produced in the year 2000, but the marmalade was sold at The Corner Store in the year 2001, what is the contribution of these transactions to GDP in the year 2001?

- a) \$0.50 b) \$2.00 c) \$2.50 d) \$2.75 e) \$0.00
35. Which of the following statements is positive?
- a) Large budget deficits should be avoided.
 - b) The Federal Reserve should increase interest rates to slow down the economy.
 - c) When the Federal Reserve increases the money supply, interest rates decrease.
 - d) Higher taxes are needed to support education.
 - e) A tax cut that benefits low-income households is acceptable.
36. 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) \$7 b) \$9 c) \$11 d) \$3 e) \$4
37. The strength of aggregation is that it helps to reveal the "big picture," but it's weakness is that it:
- a) may obscure important details.
 - b) gives excess importance to the details.
 - c) add together data on different individuals.
 - d) adds together "apples and oranges."
 - e) involves the values of the person doing the analysis.
38. ALL of the following describe economic conditions during the Great Depression in the United States EXCEPT:
- a) a sharp decline in stock prices.
 - b) high rates of unemployment.
 - c) large layoffs of workers.
 - d) low levels of production.
 - e) high rates of inflation.

- 39.** 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.
- 40.** 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)** \$10 million **b)** \$20 million **c)** \$50 million **d)** \$2 billion **e)** \$25 million

Answer Key

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

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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.