ECON 101 Exam 2

Multiple Choice
Identify the choice that best completes the statement or answers the question.

1. Al’s Aluminum Company sells $1 million worth of aluminum to Shiny Foil Company, which uses the aluminum to make aluminum foil. Shiny Foil Company sells $4 million worth of aluminum foil to households. The transactions just described contribute how much to GDP?
   a. $1 million
   b. $3 million
   c. $4 million
   d. $5 million

2. A German citizen buys an automobile produced in the United States by a Japanese company. As a result,
   a. U.S. net exports increase, U.S. GDP is unaffected, Japanese GNP increases, German net exports decrease, and German GNP and GDP are unaffected.
   b. U.S. net exports and GDP increase, Japanese GNP increases, German net exports decrease, and German GNP is unaffected, and German GDP decreases.
   c. U.S. net exports and GDP increase, Japanese GNP increases, German net exports decrease, and German GNP and GDP are unaffected.
   d. U.S. net exports and GDP are unaffected, Japanese GNP increases, and German net exports, GNP, and GDP decrease.

3. In the economy of Wrexington in 2008, consumption was $4000, exports were $800, GDP was $9500, imports were $200, and investment was $1000. What were Wrexington’s government purchases in 2008?
   a. $3700
   b. $3900
   c. $5100
   d. $5500

4. If total spending rises from one year to the next, then which of the following could not be true?
   a. the economy is producing a smaller output of goods and services, and goods and services are selling at higher prices
   b. the economy is producing a larger output of goods and services, and goods and services are selling at lower prices
   c. the economy is producing a larger output of goods and services, and goods and services are selling at higher prices
   d. the economy is producing a smaller output of goods and services, and goods and services are selling at lower prices

5. The price index was 92 in 2000, and the inflation rate was 13 percent between 1999 and 2000. The price index in 1999 was
   a. 79.
   b. 81.4.
   c. 103.96.
   d. 105.
6. Iggie took a university teaching job as an assistant professor in 1974 at a salary of $10,000. By 2003, she had been promoted to full professor, with a salary of $50,000. If the price index was 50 in 1974 and 180 in 2003, then what is Iggie's 2003 salary in 1974 dollars?
   a. $13,888.89
   b. $40,000
   c. $65,000
   d. $180,000

7. If the nominal interest rate is 7 percent and the real interest rate is -2.5 percent, then the inflation rate is
   a. -9.5 percent.
   b. -4.5 percent.
   c. 4.5 percent.
   d. 9.5 percent.

8. Which of the following is physical capital?
   a. the strength of workers
   b. the knowledge of workers
   c. financial assets like cash and bonds
   d. the equipment in a factory

9. Real GDP per person is $30,000 in Country A, $20,000 in Country B, and $11,000 in Country C. Saving per person is $1,000 in all three countries. Other things equal, we would expect that
   a. all three countries will grow at the same rate.
   b. Country A will grow the fastest.
   c. Country B will grow the fastest.
   d. Country C will grow the fastest.

10. Alyssa is opening a bicycle shop, and her monthly expenditures to get the shop up and running exceed her monthly income. Alyssa is best described as a
    a. saver or as a supplier of funds.
    b. saver or as a demander of funds.
    c. borrower or as a supplier of funds.
    d. borrower or as a demander of funds.

11. Two bonds have the same term to maturity. The first was issued by a state government and the probability of default is believed to be low. The other was issued by a corporation and the probability of default is believed to be high. Which of the following is correct?
    a. Because they have the same term to maturity the interest rates should be the same.
    b. Because of the differences in tax treatment and credit risk, the state bond should have the higher interest rate.
    c. Because of the differences in tax treatment and credit risk, the corporate bond should have the higher interest rate.
    d. It is not possible to say if one bond has a higher interest rate than the other.

12. If Huedepool Beer runs into financial difficulty, the stockholders as
    a. part owners of Huedepool are paid before bondholders get paid anything at all.
    b. part owners of Huedepool are paid after bondholders get paid.
    c. creditors of Huedepool are paid before bondholders get paid anything at all.
    d. creditors of Huedepool are paid after bondholders get paid.
13. Consider the expressions $T - G$ and $Y - T - C$. Which of the following statements is correct?
   a. Each one of these is equal to national saving.
   b. Each one of these is equal to public saving.
   c. The first of these is private saving; the second one is public saving.
   d. The first of these is public saving; the second one is private saving.

14. In the first part of this decade the U.S. government went from a surplus to a deficit. Other things the same, this means the
   a. supply of loanable funds shifted to the right.
   b. supply of loanable funds shifted to the left.
   c. demand for loanable funds shifted to the right.
   d. demand for loanable funds shifted to the left.

15. At which interest rate is the present value of $79.50 one year from today equal to $75 today?
   a. 4 percent
   b. 5 percent
   c. 6 percent
   d. 7 percent

16. You have a bond that entitles you to a one-time payment of $10,000 one year from now. The interest rate is 10 percent per year. How much is the bond worth today?
   a. $9,090.91
   b. $10,000.00
   c. $8,264.46
   d. $9,523.81

17. Diversification of a portfolio
   a. can eliminate market risk, but it cannot eliminate firm-specific risk.
   b. can eliminate firm-specific risk, but it cannot eliminate market risk.
   c. can eliminate both firm-specific risk and market risk.
   d. is not necessary for a person who is risk averse.

18. Which of the following actions best illustrates moral hazard?
   a. A person adds risky stock to his portfolio.
   b. A person who has narrowly avoided many accidents applies for automobile insurance.
   c. A person is unwilling to buy a stock when she believes its price has an equal chance of rising or falling $10.
   d. A person purchases homeowners insurance and then checks his smoke detector batteries less frequently.

19. Which of the following is not included in GDP?
   a. carrots grown in your garden and eaten by your family
   b. carrots purchased at a farmer’s market and eaten by your family
   c. carrots purchased at a grocery store and eaten by your family
   d. More than one of the above is not included in GDP.
20. What word do economists use to refer to the purchase of goods that will be used in the future to produce more goods and services?
   a. saving
   b. consumption
   c. investment
   d. costs

Table 23-2

The table below contains data for the country of Wrexington for the year 2008.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household purchases of durable goods</td>
<td>$1293</td>
</tr>
<tr>
<td>Household purchases of nondurable goods</td>
<td>$1717</td>
</tr>
<tr>
<td>Household purchases of services</td>
<td>$301</td>
</tr>
<tr>
<td>Household purchases of new housing</td>
<td>$704</td>
</tr>
<tr>
<td>Purchases of capital equipment</td>
<td>$310</td>
</tr>
<tr>
<td>Inventory changes</td>
<td>$374</td>
</tr>
<tr>
<td>Purchases of new structures</td>
<td>$611</td>
</tr>
<tr>
<td>Depreciation</td>
<td>$117</td>
</tr>
<tr>
<td>Salaries of government workers</td>
<td>$1422</td>
</tr>
<tr>
<td>Government expenditures on public works</td>
<td>$553</td>
</tr>
<tr>
<td>Transfer payments</td>
<td>$777</td>
</tr>
<tr>
<td>Foreign purchases of domestically produced goods</td>
<td>$88</td>
</tr>
<tr>
<td>Domestic purchases of foreign goods</td>
<td>$120</td>
</tr>
</tbody>
</table>

21. Refer to Table 23-2. What were Wrexington’s exports in 2008?
   a. -$32
   b. $32
   c. $88
   d. $120

22. Refer to Table 23-2. What were Wrexington’s imports in 2008?
   a. -$32
   b. $32
   c. $88
   d. $120

23. Assume an economy experienced a positive rate of inflation between 2003 and 2004 and again between 2004 and 2005. However, the inflation rate was higher between 2004 and 2005 than it was between 2003 and 2004. Which of the following scenarios is consistent with this assumption?
   a. The CPI was 100 in 2003, 110 in 2004, and 105 in 2005.
   b. The CPI was 100 in 2003, 120 in 2004, and 135 in 2005.
   c. The CPI was 100 in 2003, 105 in 2004, and 130 in 2005.
   d. The CPI was 100 in 2003, 90 in 2004, and 88 in 2005.
24. If you put $300 into an account paying 2 percent interest, what will be the value of this account in 4 years?
   a. $320.69
   b. $324.00
   c. $324.73
   d. $327.81

25. The Bureau of Labor Statistics defines the unemployment rate as the percentage of
   a. those unemployed relative to those employed.
   b. the labor force that is unemployed.
   c. the adult population that is unemployed.
   d. the adult population that is unemployed or not in the labor force.

26. Refer to Table 28-1. The number of adults not in the labor force of Wrexington
   a. increased from 2004 to 2005 and increased from 2005 to 2006.
   b. increased from 2004 to 2005 and decreased from 2005 to 2006.
   c. decreased from 2004 to 2005 and increased from 2005 to 2006.
   d. decreased from 2004 to 2005 and decreased from 2005 to 2006.

27. Which of the following statements about GDP is correct?
   a. Nominal GDP values production at current prices, whereas real GDP values production at
      constant prices.
   b. Nominal GDP values production at constant prices, whereas real GDP values production
      at current prices.
   c. Nominal GDP values production at market prices, whereas real GDP values production at
      the cost of the resources used in the production process.
   d. Nominal GDP consistently underestimates the value of production, whereas real GDP
      consistently overestimates the value of production.

28. The CPI and the GDP deflator
   a. generally move together.
   b. generally show different patterns of movement.
   c. always show identical changes.
   d. always show different patterns of movement.

29. Which of the following is human capital?
   a. textbooks
   b. hand held power tools
   c. understanding how to repair cars
   d. All of the above are correct.

Table 28-1

Labor Data for Wrexington

<table>
<thead>
<tr>
<th>Year</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
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<tbody>
<tr>
<td>Adult population</td>
<td>2000</td>
<td>3000</td>
<td>3200</td>
</tr>
<tr>
<td>Number of employed</td>
<td>1400</td>
<td>1300</td>
<td>1600</td>
</tr>
<tr>
<td>Number of unemployed</td>
<td>200</td>
<td>600</td>
<td>200</td>
</tr>
</tbody>
</table>
30. Which of the following could explain a decrease in the equilibrium interest rate and in the equilibrium quantity of loanable funds?
   a. The demand for loanable funds shifted rightward.
   b. The demand for loanable funds shifted leftward.
   c. The supply of loanable funds shifted rightward.
   d. The supply of loanable funds shifted leftward.
MULTIPLE CHOICE

1. ANS: C  PTS: 1  DIF: 2  REF: 23-2
   NAT: Analytic  LOC: The study of economics and definitions in economics
   TOP: GDP | Intermediate goods  MSC: Applicative
2. ANS: C  PTS: 1  DIF: 3  REF: 23-3
   NAT: Analytic  LOC: The study of economics and definitions in economics
   TOP: Net exports | GDP | GNP  MSC: Analytical
3. ANS: B  PTS: 1  DIF: 2  REF: 23-3
   NAT: Analytic  LOC: The study of economics and definitions in economics
   TOP: Government purchases  MSC: Applicative
4. ANS: D  PTS: 1  DIF: 2  REF: 23-4
   NAT: Analytic  LOC: The study of economics and definitions in economics
   TOP: Nominal GDP  MSC: Interpretive
5. ANS: B  PTS: 1  DIF: 2  REF: 24-1
   NAT: Analytic  LOC: The study of economics and definitions in economics
   TOP: CPI | Inflation rate  MSC: Applicative
6. ANS: A  PTS: 1  DIF: 2  REF: 24-2
   NAT: Analytic  LOC: The study of economics and definitions in economics
   TOP: Comparing dollar figures  MSC: Applicative
7. ANS: D  PTS: 1  DIF: 2  REF: 24-2
   NAT: Analytic  LOC: Unemployment and inflation  TOP: Inflation rate
   MSC: Applicative
8. ANS: D  PTS: 1  DIF: 1  REF: 25-2
   NAT: Analytic  LOC: The study of economics and definitions in economics
   TOP: Physical capital  MSC: Definitional
9. ANS: D  PTS: 1  DIF: 2  REF: 25-3
   NAT: Analytic  LOC: Productivity and growth  TOP: Catch-up effect
   MSC: Applicative
10. ANS: D  PTS: 1  DIF: 1  REF: 26-0
    NAT: Analytic  LOC: The study of economics and definitions in economics
    TOP: Investment  MSC: Interpretive
11. ANS: C  PTS: 1  DIF: 3  REF: 26-1
    NAT: Analytic  LOC: The study of economics and definitions in economics
    TOP: Bonds | Interest rates  MSC: Applicative
12. ANS: B  PTS: 1  DIF: 1  REF: 26-1
    NAT: Analytic  LOC: The study of economics and definitions in economics
    TOP: Stock  MSC: Interpretive
13. ANS: D  PTS: 1  DIF: 1  REF: 26-2
    NAT: Analytic  LOC: The study of economics and definitions in economics
    TOP: Public saving | Private saving  MSC: Definitional
14. ANS: B  PTS: 1  DIF: 2  REF: 26-3
    NAT: Analytic  LOC: Understanding and applying economic models
    TOP: Budget deficits | Market for loanable funds  MSC: Interpretive
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