ECON 101 Exam 2 Fall 2015

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

1. **Ch.12.** An economy’s production function has the constant-returns-to-scale property. If the economy’s labor force doubled and all other inputs stayed the same, then real GDP would
   a. increase by exactly 50 percent.
   b. increase, but not necessarily by either 50 percent or 100 percent.
   c. increase by exactly 100 percent.
   d. stay the same.

   **Table 28-3**
   2010 Labor Data for Adults (age 16 and older) in Meditor
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Males not in labor force</td>
<td>45 million</td>
</tr>
<tr>
<td>Females not in labor force</td>
<td>35 million</td>
</tr>
<tr>
<td>Males unemployed</td>
<td>5 million</td>
</tr>
<tr>
<td>Females unemployed</td>
<td>5 million</td>
</tr>
<tr>
<td>Males employed</td>
<td>85 million</td>
</tr>
<tr>
<td>Females employed</td>
<td>65 million</td>
</tr>
</tbody>
</table>

2. **Ch.15. Refer to Table 28-3.** What is the adult male unemployment rate in Meditor?
   a. 5 percent
   b. 5.9 percent
   c. 5.6 percent
   d. 3.7 percent

3. **Ch.11.** If the nominal interest rate is 3 percent and the rate of inflation is 8 percent, then the real interest rate is
   a. 1.67 percent.
   b. -5 percent.
   c. 11 percent.
   d. 5 percent.

4. **Ch.14.** Suppose the interest rate is 5 percent. Consider three payment options:
   1. $500 today.
   2. $520 one year from today.
   3. $550 two years from today.
   Which of the following is correct?
   a. 2 has the lowest present value and 1 has the highest.
   b. 1 has the lowest present value and 3 has the highest.
   c. 3 has the lowest present value and 2 has the highest.
   d. 1 has the highest present value and 3 has the lowest.
5. **Ch.13.** For an imaginary closed economy, $T = $5,000; $S = $11,000; $C = $50,000; and the government is running a budget deficit of $1,000. Then
   a. private saving = $12,000 and GDP = $72,000.
   b. private saving = $10,000 and GDP = $54,000.
   c. private saving = $12,000 and GDP = $67,000.
   d. private saving = $10,000 and GDP = $58,000.

6. **Ch.10.** Quality Motors is a Japanese-owned company that produces automobiles; all of its automobiles are produced in American plants. In 2008, Quality Motors produced $25 million worth of automobiles and sold $12 million in the U.S. and $13 million in Mexico. In addition, it sold $2 million from the previous year’s inventory in the U.S. The transactions just described contribute how much to U.S. GDP for 2008?
   a. $27 million
   b. $25 million
   c. $12 million
   d. $14 million

7. **Ch.13.** If the tax revenue of the federal government exceeds spending, then the government necessarily
   a. will increase taxes.
   b. runs a national debt.
   c. runs a budget surplus.
   d. runs a budget deficit.

8. **Ch.12.** If a production function has constant returns to scale, output can be doubled if
   a. labor alone doubles.
   b. all of the inputs double.
   c. all inputs but labor double.
   d. capital alone doubles.

9. **Ch.10.** If a U.S. citizen buys a television made in Korea by a Korean firm, then
   b. U.S. net exports are unaffected and U.S. GDP decreases.
   c. U.S. net exports decrease and U.S. GDP is unaffected.
   d. U.S. net exports are unaffected and U.S. GDP is unaffected.

10. **Ch.14.** Some people claim that stocks follow a random walk. What does this mean?
    a. Prices of stocks of different firms in the same industry show no or little tendency to move together.
    b. Stock prices are not determined by market fundamentals such as supply and demand.
    c. Changes in stock prices cannot be predicted from available information.
    d. The price of stock one day is about what it was on the previous day.

11. **Ch.14.** A manufacturing company is thinking about building a new factory. The factory, if built, will yield the company $300 million in 7 years, and it would cost $220 million today to build. The company will decide to build the factory if the interest rate is
    a. no greater than 4.53 percent.
    b. no greater than 5.81 percent.
    c. no less than 5.81 percent.
    d. no less than 4.53 percent.
12. **Ch.15.** Sirius has just finished high school and started looking for his first job, but has not yet found one. Other things the same, the unemployment rate
   a. and the labor-force participation rate both increase.
   b. is unaffected and the labor-force participation rate increases.
   c. increases and the labor-force participation rate is unaffected.
   d. and the labor-force participation rate are both unaffected.

**Table 23-6**

**Ch.10.** The table below contains data for the country of Batterland, which produces only waffles and pancakes.

The base year is 2009.

<table>
<thead>
<tr>
<th>Year</th>
<th>Price of Waffles</th>
<th>Quantity of Waffles</th>
<th>Price of Pancakes</th>
<th>Quantity of Pancakes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$2.00</td>
<td>100</td>
<td>$1.00</td>
<td>100</td>
</tr>
<tr>
<td>2009</td>
<td>$2.00</td>
<td>120</td>
<td>$2.00</td>
<td>150</td>
</tr>
<tr>
<td>2010</td>
<td>$2.00</td>
<td>150</td>
<td>$3.00</td>
<td>200</td>
</tr>
<tr>
<td>2011</td>
<td>$4.00</td>
<td>180</td>
<td>$3.00</td>
<td>220</td>
</tr>
</tbody>
</table>

13. **Ch.10. Refer to Table 23-6.** In 2011, this country's real GDP was
   a. $1380.
   b. $800.
   c. $930.
   d. $540.

14. **Ch.15.** Satchel loses his job and immediately begins looking for another. Other things the same, the unemployment rate
   a. increases and the labor-force participation rate is unaffected.
   b. and the labor-force participation rate both increase.
   c. is unaffected and the labor-force participation rate decreases.
   d. increases and the labor-force participation rate decreases.

15. **Ch.12.** Evidence shows that other things the same, poor countries grow
   a. faster than rich countries. However, no country that was poor in 1870 is now rich.
   b. faster than rich countries. In fact, some countries that were poor in 1870 are now rich.
   c. slower than rich countries. In fact, no country that was poor in 1870 is now rich.
   d. slower than rich countries. However, some countries that were poor in 1870 are now rich.

16. **Ch.14.** As the number of stocks in a portfolio rises,
   a. firm-specific risks fall; market risk does not.
   b. market risk falls; firm-specific risks do not.
   c. neither firm-specific risks nor market risk falls.
   d. both firm-specific risks and market risk fall.
17. **Ch.15.** If the natural rate of unemployment is 5.2 percent and the actual rate of unemployment is 5.7 percent, then by definition there is
   a. structural unemployment amounting to 0.5 percent of the labor force.
   b. frictional unemployment amounting to 0.5 percent of the labor force.
   c. search unemployment amounting to 0.5 percent of the labor force.
   d. cyclical unemployment amounting to 0.5 percent of the labor force.

18. **Ch.11.** Babe Ruth's 1931 salary was $80,000. Government statistics show a consumer price index of 15.2 for 1931 and 214.5 for 2009. Ruth's 1931 salary was equivalent to a 2009 salary of about
   a. $1,128,947.
   b. $5,874.
   c. $13,560,020.
   d. $822,566.

19. **Ch.13.** Compared to bondholders, stockholders
   a. face higher risk but receive a fixed payment.
   b. face lower risk but receive a fixed payment.
   c. face higher risk and have the potential for higher returns.
   d. face lower risk and have the potential for higher returns.

20. **Ch.13.** Other things the same, a government budget deficit
   a. reduces national saving, but not public saving.
   b. reduces neither public saving nor national saving.
   c. reduces both public and national saving.
   d. reduces public saving, but not national saving.

21. **Ch.10.** In the economy of Ukzten in 2010, consumption was $800, GDP was $2000, government purchases were $400, and investment was $600. What were Ukzten’s net exports in 2010?
   a. -$200
   b. $200
   c. $1800
   d. Net exports cannot be calculated from the information given.

22. **Ch.13.** According to the definitions of private and public saving, if Y, C, and G remained the same, an increase in taxes would
   a. lower private and public saving.
   b. raise private saving and lower public saving.
   c. raise both private and public saving.
   d. lower private saving and raise public saving.
23. **Ch.11. Table 24-9**

The table below relates to the economy of Mainland, where the typical consumer’s market basket consists of 2 iPhones and 3 hamburgers.

<table>
<thead>
<tr>
<th>Year</th>
<th>Price of an iPhone</th>
<th>Price of a hamburger</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$400</td>
<td>$3</td>
</tr>
<tr>
<td>2008</td>
<td>$300</td>
<td>$5</td>
</tr>
<tr>
<td>2009</td>
<td>$325</td>
<td>$7</td>
</tr>
</tbody>
</table>

Refer to Table 24-9. If the base year is 2007, then the economy’s inflation rate in 2008 is

a. 9.2 percent.
b. 24 percent.
c. -17 percent.
d. -24 percent.

24. **Ch.12.** Allied Business Consultants employs five researchers that each work 8 hour days. In one day the researchers prepare 60 reports for its 10 largest clients. What was Allied Business Consultants’ productivity?

a. 1.5 reports per hour
b. 7.5 reports per hour
c. 60 reports
d. 6 reports per client

25. **Ch.12.** The saws, lathes, and drill presses that woodworkers at Cedar Valley Furniture use to produce furniture are called

a. physical capital.
b. human capital.
c. natural resources.
d. technological knowledge.

26. **Ch.14.** Which of the following best illustrates moral hazard?

a. After a person obtains life insurance, she takes up skydiving.
b. A person obtains insurance knowing he is in poor health.
c. A person holds stocks from only a few corporations.
d. A person holds stock only in very risky corporations.

27. **Ch.15.** Josh is a full-time college student who is not working or looking for a job. The Bureau of Labor Statistics counts Josh as

a. in the labor force, but not unemployed.
b. unemployed and in the labor force.
c. neither in the labor force nor unemployed.
d. unemployed, but not in the labor force.
28. **Ch.10.** If nominal GDP is $10 trillion and real GDP is $12 trillion, then the GDP deflator is
   a. 120, and this indicates that the price level has increased by 120 percent since the base year.
   b. 120, and this indicates that the price level has increased by 20 percent since the base year.
   c. 83.33, and this indicates that the price level has increased by 83.33 percent since the base year.
   d. 83.33, and this indicates that the price level has decreased by 16.67 percent since the base year.

29. **Ch.11.** If the price of Italian shoes imported into the United States increases, then
   a. neither the GDP deflator nor the consumer price index will increase.
   b. the GDP deflator will increase, but the consumer price index will not increase.
   c. the consumer price index will increase, but the GDP deflator will not increase.
   d. both the GDP deflator and the consumer price index will increase.

*Scenario 24-1*

The price tag on a tennis ball in 1975 read $0.10, and the price tag on a tennis ball in 2005 read $1.00. The CPI in 1975 was 52.3, and the CPI in 2005 was 191.3.

30. **Ch.11. Refer to Scenario 24-1.** The price of a 1975 tennis ball in 2005 dollars is
   a. $0.37.
   b. $0.27.
   c. $1.00.
   d. $0.03.