ECON 101 Exam 2 Vesselinov

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

1. 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 market prices, whereas real GDP values production at the cost of the resources used in the production process.
   c. Nominal GDP values production at constant prices, whereas real GDP values production at current prices.
   d. Nominal GDP values production at the cost of the resources used in the production process, whereas real GDP values production at market prices.

2. Table A.

<table>
<thead>
<tr>
<th></th>
<th>2009 Quantity</th>
<th>2009 Price</th>
<th>2010 Quantity</th>
<th>2010 Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cranberries</td>
<td>40</td>
<td>10</td>
<td>50</td>
<td>20</td>
</tr>
<tr>
<td>Maple Syrup</td>
<td>80</td>
<td>15</td>
<td>100</td>
<td>8</td>
</tr>
</tbody>
</table>

Use Table A above.
Suppose an economy produces only cranberries and maple syrup. Year 2009 is the base year. For 2010,
   a. nominal GDP is $1800, real GDP is $2000, and the GDP deflator is 111.1.
   b. nominal GDP is $2000, real GDP is $1800, and the GDP deflator is 111.1.
   c. nominal GDP is $2000, real GDP is $1800, and the GDP deflator is 90.
   d. nominal GDP is $1800, real GDP is $2000, and the GDP deflator is 90.

3. If your firm’s production function has constant returns to scale and you increase all your inputs by 60%, then your firm’s output will
   a. not change.
   b. increase, but by less than 60%
   c. increase by 60%
   d. increase by more than 60%.

4. Satchel loses his job and immediately begins looking for another. Other things the same, the unemployment rate
   a. is unaffected and the labor-force participation rate decreases.
   b. increases and the labor-force participation rate is unaffected.
   c. increases and the labor-force participation rate decreases.
   d. and the labor-force participation rate both increase.
5. What is the present value of a payment of $2,000 to be received two years from today if the interest rate is 5%?
   a. $1818.18
   b. $2200
   c. $1814.06
   d. $2205

6. Refer to Figure 25-1. The curve becomes flatter as the amount of capital per worker increases because of
   a. increasing returns to capital.
   b. diminishing returns to labor.
   c. increasing returns to labor.
   d. diminishing returns to capital.

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

8. Which of the following is included in U.S. GDP?
   a. the value of production by an American working in Singapore
   b. the value of production by a Singaporean working in the U.S.
   c. Both (a) and (b) are correct.
   d. Neither (a) nor (b) is correct.

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Figure 25-1. On the horizontal axis, $K/L$ represents capital ($K$) per worker ($L$). On the vertical axis, $Y/L$ represents output ($Y$) per worker ($L$).

![Figure 25-1](image-url)
9. If the nominal interest rate is 4 percent and the inflation rate is 6 percent, then the real interest rate is
   a. -2 percent.
   b. 4 percent.
   c. 10 percent.
   d. 2 percent.

10. Strike Out Bowling Balls produces 800 bowling balls per day using 2 workers who each work 8 hours per day. What is Strike Out’s productivity?
   a. 50 bowling balls per hour
   b. 100 bowling balls per hour
   c. None of the above is correct.
   d. 800 bowling balls

11. Gross domestic product measures
   a. income but not expenditures.
   b. expenditures but not income.
   c. income and expenditures.
   d. neither income nor expenditures.

12. If the consumer price index was 100 in the base year and 107 in the following year, then the inflation rate was
   a. 107 percent.
   b. 1.07 percent.
   c. 7 percent.
   d. 10.7 percent.

13. Productivity is defined as the quantity of
   a. labor required to produce one unit of goods and services.
   b. labor required to produce a nation’s GDP.
   c. goods and services produced from each unit of labor input.
   d. goods and services produced per unit of capital.

14. Which of the following lists correctly identifies the four expenditure categories of GDP?
   a. consumption, government purchases, investment, savings
   b. consumption, investment, depreciation, net-exports
   c. consumption, saving, investment, depreciation,
   d. consumption, government purchases, investment, net-exports
Table 24-1

The table below pertains to Pieway, an economy in which the typical consumer’s basket consists of 10 bushels of peaches and 15 bushels of pecans.

<table>
<thead>
<tr>
<th>Year</th>
<th>Price of Peaches</th>
<th>Price of Pecans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$11 per bushel</td>
<td>$6 per bushel</td>
</tr>
<tr>
<td>2006</td>
<td>$9 per bushel</td>
<td>$10 per bushel</td>
</tr>
</tbody>
</table>

15. Refer to Table 24-1. If 2006 is the base year, then the inflation rate in 2006 was
   a. 40 percent.
   b. 16.7 percent.
   c. 20 percent.
   d. 44.1 percent.

16. Suppose you put $350 into a bank account today. Interest is paid annually and the annual interest rate is 6 percent. The future value of the $350 after 4 years is
   a. $434.00.
   b. $481.24.
   c. $414.09.
   d. $441.87.

17. If the CPI was 108.0 in 1942 and is 324.0 today, then $12 in 1942 purchased the same amount of goods and services as
   a. $108 purchases today.
   b. $36 purchases today.
   c. $324 purchases today.
   d. $4 purchases today.

18. Which of the following is included in GDP?
   a. neither the market value of owner-occupied housing services nor the market value of rental housing services.
   b. both the market value of rental housing services and the market value of owner-occupied housing services
   c. the market value of owner-occupied housing services, but not the market value of rental housing services
   d. the market value of rental housing services, but not the market value of owner-occupied housing services.
Table 28-1

Labor Data for Aridia

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult population</td>
<td>3200</td>
</tr>
<tr>
<td>Number of employed</td>
<td>1600</td>
</tr>
<tr>
<td>Number of unemployed</td>
<td>200</td>
</tr>
</tbody>
</table>

19. Refer to Table 28-1. The unemployment rate of Aridia in 2012 was
   a. 12.5%.
   b. 11.1%.
   c. 56.3%.
   d. 6.25%.

20. Refer to Table 28-1. The labor force of Aridia in 2012 was
   a. 3200.
   b. 1800.
   c. 1600.
   d. 3000.

21. If the price of Spanish olives imported into the United States decreases, then
   a. the GDP deflator will decrease, but the consumer price index will not decrease.
   b. neither the GDP deflator nor the consumer price index will decrease.
   c. both the GDP deflator and the consumer price index will decrease.
   d. the consumer price index will decrease, but the GDP deflator will not decrease.

22. Assuming the interest rate is 5 percent, what is the present value of $200 today?
   a. $200
   b. Unknown.
   c. $210
   d. $190.5

23. For a closed economy, GDP is $11 trillion, consumption is $7 trillion, taxes are $2 trillion and the
government runs a deficit of $1 trillion. What are private saving and national saving?
   a. $2 trillion and $1 trillion, respectively
   b. $2 trillion and $-1 trillion, respectively
   c. $4 trillion and $1 trillion, respectively
   d. $4 trillion and $-1 trillion, respectively

24. The single most important piece of information about a stock is its
   a. dividend.
   b. price.
   c. daily volume.
   d. term.
25. Which of the following actions best illustrates adverse selection?
   a. A person is unwilling to buy a stock when she believes its price has an equal chance of rising or falling $10.
   b. A person who has narrowly avoided many accidents applies for automobile insurance.
   c. A person adds risky stock to his portfolio.
   d. A person purchases homeowners insurance and then checks his smoke detector batteries less frequently.