ECON 101 Exam 2, Spring 2014 Vesselinov

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

____ 1. Ch. 10. When an American household purchases a bottle of Italian wine for $100,
   a. U.S. consumption does not change, U.S. net exports decrease by $100, and U.S. GDP
      decreases by $100.
   b. U.S. consumption does not change, U.S. net exports increase by $100, and U.S. GDP
      increases by $100.
   c. U.S. consumption increases by $100, U.S. net exports decrease by $100, and U.S. GDP
      does not change.
   d. U.S. consumption increases by $100, U.S. net exports do not change, and U.S. GDP
      increases by $100.

____ 2. Ch. 10. If nominal GDP is $10 trillion and real GDP is $8 trillion, then the GDP deflator is
   a. 80, and this indicates that the price level has decreased by 20 percent since the base year.
   b. 80, and this indicates that the price level has increased by 80 percent since the base year.
   c. 125, and this indicates that the price level has increased by 25 percent since the base
      year.
   d. 125, and this indicates that the price level has increased by 125 percent since the base
      year.

Table 23-4

The country of Caspir produces only cereal and milk. Quantities and prices of these goods for the last
several years are shown below. The base year is 2008.

<table>
<thead>
<tr>
<th>Year</th>
<th>Price of Cereal</th>
<th>Quantity of Cereal</th>
<th>Price of Milk</th>
<th>Quantity of Milk</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>$4.00</td>
<td>90</td>
<td>$1.50</td>
<td>150</td>
</tr>
<tr>
<td>2009</td>
<td>$4.00</td>
<td>100</td>
<td>$2.00</td>
<td>180</td>
</tr>
<tr>
<td>2010</td>
<td>$5.00</td>
<td>120</td>
<td>$2.50</td>
<td>200</td>
</tr>
<tr>
<td>2011</td>
<td>$6.00</td>
<td>150</td>
<td>$3.50</td>
<td>200</td>
</tr>
</tbody>
</table>

____ 3. Ch. 10. Refer to Table 23-4. In 2009, this country’s
   a. real GDP was $760
   b. real GDP was $585
   c. real GDP was $660
   d. real GDP was $670

____ 4. Ch. 10. A Minnesota farmer buys a new tractor made in Iowa by a German company. As a result,
   a. U.S. investment and GDP increase, but German GDP is unaffected.
   b. U.S. investment and German GDP increase, but U.S. GDP is unaffected.
   c. U.S. investment, U.S. GDP, and German GDP are unaffected because tractors are
      intermediate goods.
   d. U.S. investment, U.S. GDP, and German GDP all increase.
5. Ch. 10. In the economy of Uktzen in 2010, consumption was $200, exports were $50, GDP was $325, government purchases were $100, imports were $125, and investment was $100. What were Uktzen’s net exports in 2010?
   a. $-75
   b. $-50
   c. $50
   d. $75

6. Ch. 11. Suppose a basket of goods and services has been selected to calculate the CPI and 2004 has been selected as the base year. In 2002, the basket’s cost was $50; in 2004, the basket’s cost was $52; and in 2006, the basket’s cost was $54.60. The value of the CPI in 2006 was
   a. 91.6.
   b. 95.2.
   c. 105.0.
   d. 109.2.

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>

7. Ch. 11. Refer to Table 24-1. If 2006 is the base year, then the CPI for 2005 was
   a. 83.3.
   b. 100.
   c. 120.
   d. 200.

8. Ch. 11. An increase in the price of Irish whiskey imported into the United States will be reflected in
   a. both the U.S. GDP deflator and the U.S. CPI.
   b. neither the U.S. GDP deflator nor the U.S. CPI.
   c. the U.S. GDP deflator, but not the U.S. CPI.
   d. the U.S. CPI, but not the U.S. GDP deflator.

9. Ch. 11. Janelle earned a salary of $40,000 in 1996 and $65,000 in 2006. The consumer price index was 160 in 1996 and 266 in 2006. Janelle’s 2006 salary in 1996 dollars is
   a. $39,097.74.
   b. $43,062.50.
   c. $68,900.00.
   d. $108,062.50.
10. Ch. 11. If the nominal interest rate is 5 percent and the rate of inflation is 9 percent, then the real interest rate is
   a. -4 percent.
   b. -0.44 percent.
   c. 4 percent.
   d. 14 percent.

11. Ch. 12. You and your friend work together for 4 hours to produce a total of 12 futons. What is productivity?
   a. 12 futons
   b. 24 futons
   c. 3 futons per hour of labor
   d. 1.5 futons per hour of labor

12. Ch. 12. In the equation for the production function $H/L$ represents
   a. natural resources per worker.
   b. human capital per worker.
   c. output per worker.
   d. physical capital per worker.

13. Ch. 12. If a production function has constant returns to scale, output can be doubled if
   a. labor alone doubles.
   b. all inputs but labor double.
   c. all of the inputs double.
   d. None of the above is correct.

14. Ch. 12. The traditional view of the production process is that capital is subject to
   a. diminishing returns, so that other things the same, real GDP in poor countries should grow at a faster rate than in rich countries.
   b. diminishing returns, so that other things the same, real GDP in poor countries should grow at a slower rate than in rich countries.
   c. increasing returns, so that other things the same, real GDP in poor countries should grow at a faster rate than in rich countries.
   d. increasing returns, so that other things the same, real GDP in poor countries should grow at a slower rate than in rich countries.

15. Ch. 12. If your firm’s production function has constant returns to scale and you decrease all your inputs by 60%, then your firm’s output will
   a. not change.
   b. decrease, but by less than 60%
   c. decrease by 60%
   d. decrease by more than 60%.

16. Ch. 13. Suppose that in a closed economy GDP is equal to 11,000, taxes are equal to 1,500, consumption equals 7,500, and government purchases equal 2,000. What is national saving?
   a. -500
   b. 0
   c. 2,000
   d. None of the above is correct.
17. Ch. 13. Suppose that in a closed economy GDP is equal to 11,000, taxes are equal to 2,500 consumption equals 7,500 and government purchases equal 2,000. What are private saving, public saving, and national saving?
   a. 1,500, 1,000, and 500, respectively
   b. 1,000, 500, and 1,500, respectively
   c. 500, 1,500, and 1,000, respectively
   d. None of the above is correct.

18. Ch. 13. 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. $4 trillion and $1 trillion, respectively
   b. $4 trillion and -$1 trillion, respectively
   c. $2 trillion and $1 trillion, respectively
   d. $2 trillion and -$1 trillion, respectively

Scenario 26-3. Assume the following information for an imaginary, open economy.

Consumption = $1,000; investment = $300; net exports = $100; taxes = $230; private saving = $200; and national saving = $150.

19. Ch. 13. Refer to Scenario 26-3. This economy's government is running a
   a. budget deficit of $50.
   b. budget deficit of $80.
   c. budget surplus of $50.
   d. budget surplus of $80.

20. Ch. 13. If the nominal interest rate is 5 percent and the rate of inflation is 2 percent, then the real interest rate is
   a. 7 percent.
   b. 3 percent.
   c. 2.5 percent.
   d. .4 percent.

21. Ch. 14. What is the future value of $500 one year from today if the interest rate is 6 percent?
   a. $506
   b. $494
   c. $530
   d. None of the above is correct.

22. Ch. 14. If the interest rate is 5 percent, what is the present value of a payment of $500 to be made two years from today?
   a. $495.00
   b. $505.00
   c. $453.51
   d. None of the above are correct to the nearest cent.
23. Ch. 14. If you deposit $900 into an account for two years and the interest rate is 4%, how much do you have at the end of the two years?
   a. $922.00
   b. $973.44
   c. $994.19
   d. None of the above is correct.

   a. only market risk.
   b. only firm-specific risk.
   c. neither market or firm-specific risk.
   d. both market and firm-specific risk.

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

26. Ch. 15. Jai Li lost her job two months ago, and she hasn’t yet started looking for a new one. The Bureau of Labor Statistics counts Jai Li as
   a. unemployed and in the labor force.
   b. unemployed, but not in the labor force.
   c. in the labor force, but not unemployed.
   d. neither in the labor force nor unemployed.

27. Ch. 15. Angelica is an unpaid homemaker who works as a volunteer at the local Red Cross and is currently not looking for a paid job. The Bureau of Labor Statistics counts Angelica as
   a. unemployed and in the labor force.
   b. unemployed, but not in the labor force.
   c. in the labor force, but not unemployed.
   d. neither in the labor force nor unemployed.

28. Ch. 15. Unemployment that results because it takes time for workers to search for the jobs that best suit their tastes and skills is called
   a. the natural rate of unemployment.
   b. cyclical unemployment.
   c. structural unemployment.
   d. frictional unemployment.

29. Ch. 15. Suppose that the adult population is 4 million, the number of unemployed is 0.25 million, and the labor-force participation rate is 75%. What is the unemployment rate?
   a. 6.25%
   b. 8.3%
   c. 9.1%
   d. 18.75%
Table 28-1

Labor Data for Aridia

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<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. Ch. 15. Refer to Table 28-1. The unemployment rate of Aridia in 2012 was
   a. 6.25%.
   b. 11.1%.
   c. 12.5%.
   d. 56.25%.