Exam2

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

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

2. If the quantity of loanable funds supplied exceeds the quantity of loanable funds demanded,
   a. there is a surplus and the interest rate is below the equilibrium level.
   b. there is a surplus and the interest rate is above the equilibrium level.
   c. there is a shortage and the interest rate is above the equilibrium level.
   d. there is a shortage and the interest rate is below the equilibrium level.

3. A risk-averse person has
   a. utility and marginal utility curves that slope downward.
   b. a utility curve that slopes down and a marginal utility curve that slopes upward.
   c. utility and marginal utility curves that slope upward.
   d. a utility curve that slopes upward and a marginal utility curve that slopes downward.

4. Using the production function and notation in the text, $H/L$ measures
   a. natural resources per worker.
   b. human capital per worker.
   c. output per worker.
   d. physical capital per worker.

Table 24-5
The table below pertains to Yackandsnack, an economy in which the typical consumer’s basket consists of 2 cell phones and 20 ham sandwiches.

<table>
<thead>
<tr>
<th>Year</th>
<th>Price of a Cell Phone</th>
<th>Price of a Ham Sandwich</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$50</td>
<td>$3</td>
</tr>
<tr>
<td>2007</td>
<td>$60</td>
<td>$4</td>
</tr>
<tr>
<td>2008</td>
<td>$55</td>
<td>$5</td>
</tr>
</tbody>
</table>

5. Refer to Table 24-5. If the base year is 2007, then the consumer price index was
6. If Proctor and Gamble sells a bond it is
   a. lending indirectly to the public.
   b. borrowing indirectly from the public.
   c. lending directly to the public.
   d. borrowing directly from the public.

7. Which of the following is a determinant of productivity?
   a. physical capital per worker
   b. human capital per worker
   c. natural resources per worker
   d. All of the above are correct.

Scenario 25-1. An economy’s production form takes the form \( Y = AF(L, K, H, N) \).

8. Refer to Scenario 25-1. Using the notation in the text, \( K \) represents the quantity of
   a. nonrenewable natural resources.
   b. human capital and physical capital combined.
   c. physical capital only.
   d. human capital only.

9. 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. cyclical unemployment amounting to 0.5 percent of the labor force.
   b. structural unemployment amounting to 0.5 percent of the labor force.
   c. search unemployment amounting to 0.5 percent of the labor force.
   d. frictional unemployment amounting to 0.5 percent of the labor force.

10. You want to have $100,000 in five years. If the interest rate is 8 percent, about how much do you need to
    have today?
    a. $66,225.25
    b. $67,556.42
    c. $71,428.57
    d. $68,058.32

11. 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. $973.44
    b. $974.19
    c. $972.00
    d. None of the above is correct.

12. If the budget deficit increases then
    a. saving falls and the interest rate rises
    b. saving rises and the interest rate falls
    c. saving and the interest rate rise
    d. saving and the interest rate falls
13. You have a choice among three options. Option 1: receive $900 immediately. Option 2: receive $1,200 one year from now. Option 3: receive $2,000 five years from now. The interest rate is 15 percent. Rank these three options from highest present value to lowest present value.
   a. Option 2; Option 3; Option 1
   b. Option 3; Option 2; Option 1
   c. Option 1; Option 2; Option 3
   d. Option 3; Option 1; Option 2

14. Suppose the government eliminates all environmental regulations and, as a result, the production of goods and services increases, but there is considerably more pollution. Based on this scenario, which of the following statements is correct?
   a. GDP would definitely increase because GDP excludes environmental quality.
   b. GDP could either increase or decrease because GDP excludes environmental quality.
   c. GDP would definitely increase, despite the fact that GDP includes environmental quality.
   d. GDP would definitely decrease because GDP includes environmental quality.

15. Marion collected Social Security payments of $250 a month in 1985. If the price index rose from 90 to 108 between 1985 and 1986, then her Social Security payments for 1986 should have been
   a. $268.
   b. $300.
   c. $292.
   d. $358.

16. To calculate the CPI, the Bureau of Labor Statistics uses
   a. the prices of all final goods and services.
   b. the prices of all consumer goods.
   c. the prices of some consumer goods.
   d. the prices of all goods and services produced domestically.

17. In the economy of Wrexington in 2008, consumption was $500, exports were $200, GDP was $1200, government purchases were $250, and investment was $300. What were Wrexington’s imports in 2008?
   a. -$50
   b. -$150
   c. $50
   d. $150

18. In the United States in 2007, consumption represented approximately
   a. 5 percent of GDP.
   b. 70 percent of GDP.
   c. 15 percent of GDP.
   d. 19 percent of GDP.
Table 24-3

The table below pertains to Studious, an economy in which the typical consumer’s basket consists of 5 books and 10 calculators.

<table>
<thead>
<tr>
<th>Year</th>
<th>Price of a Book</th>
<th>Price of a Calculator</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$24</td>
<td>$8</td>
</tr>
<tr>
<td>2007</td>
<td>$30</td>
<td>$12</td>
</tr>
<tr>
<td>2008</td>
<td>$32</td>
<td>$15</td>
</tr>
</tbody>
</table>

19. **Refer to Table 24-3.** The cost of the basket
   a. increased by $42 from 2006 to 2007.
   b. increased by $10 from 2006 to 2007.
   c. increased by $70 from 2006 to 2007.
   d. increased by $150 from 2006 to 2007.

20. The utility function of a risk-averse person has a
   a. positive slope and gets steeper as wealth increases.
   b. positive slope but gets flatter as wealth increases.
   c. negative slope but gets steeper as wealth increases.
   d. negative slope and gets flatter as wealth increases.