Exam 2

Multiple Choice

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

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

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

2. 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. cyclical unemployment amounting to 0.5 percent of the labor force.
   d. search unemployment amounting to 0.5 percent of the labor force.

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>

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

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

5. If the budget deficit increases then
   a. saving falls and the interest rate rises
   b. saving and the interest rate falls
   c. saving rises and the interest rate falls
   d. saving and the interest rate rise
6. 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. $150
   d. -$50

7. 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. $974.19
   b. $973.44
   c. $972.00
   d. None of the above is correct.

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

9. 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 decrease because GDP includes environmental quality.
   d. GDP would definitely increase, despite the fact that GDP includes environmental quality.

10. 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 1; Option 2
    c. Option 3; Option 2; Option 1
    d. Option 1; Option 2; Option 3

11. In the United States in 2007, consumption represented approximately
    a. 15 percent of GDP.
    b. 70 percent of GDP.
    c. 19 percent of GDP.
    d. 5 percent of GDP.

12. 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. $292.
    c. $300.
    d. $358.
13. If Proctor and Gamble sells a bond it is
   a. lending directly to the public.
   b. lending indirectly to the public.
   c. borrowing indirectly from the public.
   d. borrowing directly from the public.

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

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

16. 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 shortage and the interest rate is below the equilibrium level.
   c. there is a shortage and the interest rate is above the equilibrium level.
   d. there is a surplus and the interest rate is above the equilibrium level.

17. Using the production function and notation in the text, \( \frac{H}{L} \) measures
   a. physical capital per worker.
   b. natural resources per worker.
   c. output per worker.
   d. human capital per worker.

18. If nominal GDP is $8 trillion and real GDP is $10 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. 125, and this indicates that the price level has increased by 125 percent since the base year.
   c. 80, and this indicates that the price level has increased by 80 percent since the base year.
   d. 125, and this indicates that the price level has increased by 25 percent since the base year.
**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>

19. Refer to Table 24-5. If the base year is 2007, then the consumer price index was

20. 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. $71,428.57
   c. $67,556.42
   d. $68,058.32