

Units 1 and 2 make up test

Multiple Choice

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

- Over the last year, Eli has been working very hard and his employer has taken notice by giving him a 6% raise in his salary. During this last year, overall prices in the economy have increased by 4%. Given this information, Eli's real wage has:
 - stayed constant.
 - increased by 6%.
 - increased by 10%.
 - decreased by 4%.
 - increased by 2%.
- Real GDP is:
 - the value of the production of all final goods and services measured in current prices.
 - the value of the production of all final goods and services adjusted for price changes.
 - the projected future value of GDP.
 - calculated by adding up only the real number of all items sold in the U.S. regardless of their prices.
 - the value of the production of all final goods and services measured in future prices.
- Gross Domestic Product (GDP) is:
 - the total dollar value of all transactions in the economy in a year.
 - the total dollar value of all final goods and services produced in the economy in a year.
 - the total dollar value of all final goods and services produced by Americans at home and abroad in a year.
 - the total dollar value of all goods produced in the economy in a year.
 - the total dollar value of all intermediate goods produced in the economy in a year.
- If the consumer price index changes from 120 to 125 between December 2007 and December 2008, the:
 - inflation rate for 2008 is 4.2%.
 - inflation rate for 2008 is 5%.
 - deflation rate for 2008 is 5%.
 - deflation rate for 2008 is -4.2%.
 - inflation rate for 2008 is 10%.

The town of York produces two goods, Good A and Good B. The following is information regarding York's production of these two goods and their prices the following three years.

	Year 2006	Year 2007	Year 2008
Quantity of Good A	3	4	5
Price of Goods A	\$500	\$550	\$550
Quantity of Good B	10	10	10
Price of Good B	\$2	\$4	\$5
Scenario 11-1: Good A and Good B			

- Use **Scenario 11-1**. Using 2006 as the base year, then one would find that the real GDP in 2006:
 - is equal to the real GDP in 2007.
 - is equal to the nominal GDP in 2006.
 - is greater than the real GDP in 2007.
 - is greater than the real GDP in 2008.
 - is the same as real GDP in 2007.
- Use **Scenario 11-1**. In 2007, nominal GDP is:
 - greater than the nominal GDP in 2008.
 - greater than the nominal GDP in 2006.
 - equal to the nominal GDP in 2008.
 - equal to the nominal GDP in 2006.
 - less than the nominal GDP in 2006.

7. The _____ is the most widely used measure of inflation in the United States.
- producer price index
 - consumer price index
 - GDP deflator
 - national income account
 - growth rate of real GDP
8. When hyperinflation forces Emily to visit her bank very frequently to keep her cash holdings to a minimum, economists say that Emily is experiencing a:
- search cost.
 - menu cost.
 - unit-of-account cost.
 - Fisher effect.
 - shoe-leather cost.
9. One of the consequences of increasing the minimum wage has been:
- decreased unemployment for low-skill workers.
 - workers offering to work “off the books” for less than the minimum wage.
 - lower production costs for small businesses.
 - increased employment for high-skill workers.
 - lower prices for goods produced with minimum wage workers.

Personal consumption expenditures	\$500
Gross private domestic investment	200
Net exports	-5
State and local government purchases of goods and services	200
Federal government purchases of goods and services	100
Imports	15
Table 10-4: Measuring GDP (billions of dollars)	

10. Use **Table 10-4**. Exports are:
- \$5 billion.
 - \$0 billion.
 - \$5 billion.
 - \$10 billion.
 - \$15 billion.
11. Sally works twenty hours a week for an accounting firm. She would like to work forty hours a week and expects that she will in the future. Sally is a(n):
- discouraged worker
 - unemployed worker
 - underemployed worker
 - full time worker
 - marginally unemployed worker.
12. Double counting would occur if:
- GDP was calculated by adding together C, I, G, and NX.
 - used goods were included in the GDP calculation.
 - imports were subtracted from GDP.
 - inventories were added to the GDP calculation.
 - new construction was counted as investment spending.

13. In the absence of minimum wages, efficiency wages, or labor unions, a decline in the demand for labor would likely result in which of the following if wages are flexible?
- Higher levels of employment.
 - No changes in employment.
 - A lower level of employment but likely no change in the unemployment rate.
 - A lower level of employment and a higher unemployment rate.
 - A lower level of employment and a lower unemployment rate.
14. Too little spending in an economy often leads to:
- a recession.
 - inflation.
 - full employment
 - efficiency.
 - specialization.
15. Which of the following would describe a person who is counted as unemployed by the government?
- Stan does not have a job but is actively seeking employment.
 - Beverly has a part-time job but would prefer a full-time job.
 - Moesha does not have a job because she recently retired.
- I only.
 - II only.
 - III only.
 - I and II only.
 - I, II and III.
16. If the CPI is 120 in Year 1 and 150 in Year 2, then the rate of inflation from Year 1 to Year 2 is ____.
- 10%
 - 20%
 - 25%
 - 50%
 - 100%
17. A survey reveals that on a small island 40 adults have jobs, 10 other adults are looking for jobs, and 30 are neither working nor looking for work. The unemployment rate on the island is:
- 12.5%.
 - 20.0%.
 - 25.0%.
 - 50.0%.
 - 75.0%.
18. The labor force is considered to be:
- all those employed.
 - those who are employed plus those who are unemployed.
 - the population of the nation.
 - those not frictionally unemployed plus all others employed.
 - the population of the nation above the age of 16.
19. Included as an addition to GDP would be:
- the dollar value of a used car sold during the period.
 - the dollar value of a new car imported during the period.
 - the dollar value of a new car exported during the period.
 - the purchase of 100 shares of General Motors stock.
 - the dollar value of a do-it-yourself home repair.
20. Unemployment that occurs because it takes workers and employees time to find each other is called:
- cyclical unemployment
 - structural unemployment
 - frictional unemployment
 - discouraged unemployment
 - natural unemployment

21. Inflation:
- is defined as a movement of the economy towards economic growth.
 - can be thought of as an increase in a nation's standard of living.
 - is a sustained fall in the overall level of prices.
 - is a typical cause of rising real wages.
 - is an increase in the overall level of prices.

Product	2008 Output	2008 Prices (base year)	Product	2009 Output	2009 Prices
Peanut Butter	200 units	\$1 per unit	Peanut Butter	250	\$1.10
Jelly	100 units	\$2 per unit	Jelly	100	\$2.50

Table 11-1: Peanut Butter and Jelly Economy

22. Use **Table 11-1**. A simple economy produces only peanut butter and jelly. Using the data in the attached table, nominal GDP in 2009 was ____ and real GDP in 2009 was ____.
- \$450; \$400
 - \$525; \$450
 - \$525; \$400
 - \$450; \$575
 - \$500; \$450
23. The consumer price index reflects the:
- changes in the prices of goods and services typically purchased by consumers.
 - level of prices for intermediate goods and services purchased by business.
 - level of prices for raw materials.
 - prices of all goods and services computed from the ratio of nominal GDP to real GDP.
 - average price of goods and services purchased by consumers.
24. "When people want more goods and services than are available, the economy experiences inflation." This statement best represents the economic concept of:
- resources are scarce.
 - when markets don't achieve efficiency, government intervention can improve society's welfare.
 - overall spending sometimes gets out of line with the economy's productive capacity.
 - government policies can change spending.
 - people usually exploit opportunities to make themselves better off.
25. Sam, who is 55 years old and has been a steel worker for 30 years, is unemployed because the steel plant in his town closed and moved to Mexico. Sam is experiencing:
- cyclical unemployment.
 - permanent unemployment.
 - frictional unemployment.
 - structural unemployment.
 - operational unemployment.
26. Recessions are periods when:
- output rises.
 - the aggregate price level rises.
 - the unemployment rate is falling.
 - output and employment are falling.
 - employment and productivity are both rising.

27. In macroeconomics:
- aggregate data such as real gross domestic product, the price level and unemployment are analyzed.
 - individual and firm decisions regarding utility and profit maximization are studied.
 - long term economic growth is not considered to be important.
 - government regulation of specific firms and industries is studied.
 - the growth and decline of specific occupations and industries are analyzed.
28. Suppose the real interest rate is 2.1% and the nominal interest rate is 5.4%. Then the expected inflation rate is:
- 7.5%.
 - 3.3%.
 - 3.3%.
 - 2.1%.
 - 5.4%.
29. Unanticipated inflation:
- reduces the value of money.
 - increases the value of future obligations.
 - increases certainty about the future.
 - helps lenders.
 - harms borrowers.
30. If the actual unemployment rate is 7% and the cyclical unemployment rate is 2%, then the natural rate of unemployment is:
- 2%.
 - 5%.
 - 7%.
 - 9%.
 - 3.5%

Short Answer

31. Use the information in the table below to answer the following questions.

Year	Nominal GDP	Price Level	Population
Country A			
2010	\$2,000	\$100	10
2018	4,000	100	20
Country B			
2010	\$2,000	\$100	10
2018	6,000	200	15

- Calculate the percent increase in nominal GDP between 2010 and 2018 for each country.
 - What happened to the price level in each country between 2010 and 2018?
 - Calculate real GDP in each country in 2018, using 2010 as the base year.
 - Calculate the percent increase in real GDP between 2010 and 2018 for each country.
 - Compare the two countries' real GDP per capita in 2018 using 2010 as the base year.
32. You borrow \$1000 for one year at a 5% interest to buy a phone. Although you did not anticipate any inflation, there is unexpected inflation of 5% over the life of your loan.
- What was the real interest rate on your loan?
 - Identify whether you gained or were hurt from the inflation.
 - Who lost as a result of the situation described? Explain.