

EXAM I: Version 1

Econ 2203
Fall 2012

Instructions:

1. Write your **name** on your scantron.
2. Write the version of the exam you are taking (Version 1, 2, etc.) on the scantron. If you do not do this, I cannot guarantee that your exam will be scored properly.
3. Choose the best available answer and indicate your choice on your scantron sheet.
4. When finished, turn in your scantron **ONLY**. You may keep the exam copy. I will post your results on D2L once the exams have been scored.

1. The Current Population Survey is a survey of
 - a. 1 million households in the United States.
 - b. all households in the United States.
 - c. unemployed individuals.
 - d. 60,000 households in the United States.
 - e. the whole U.S. population.

2. Which of the following best explains the meaning of the term *labor force*?
 - a. All people 16 years of age and over who are employed
 - b. All people between the ages of 16 and 65
 - c. The population that is 16 years of age or over
 - d. Any individual who has a job
 - e. All people 16 years of age and over who are counted as employed or unemployed

3. According to the Current Population Survey, which of the following is the best example of an unemployed person?
 - a. Any person not working or not working as many hours as he or she would prefer
 - b. Any person without a job while looking for work
 - c. A person without a job
 - d. Any person looking for work
 - e. A person who decides to leave the labor force

4. Suppose an individual is working at home without pay. That person would be counted as
 - a. employed.
 - b. unemployed.
 - c. Not enough information is given.
 - d. not in the labor force.
 - e. self-employed.

5. If the working-age population is 100 million, the labor force is 75 million, and the number employed is 60 million, what is the unemployment rate?
 - a. 20 percent
 - b. 80 percent
 - c. 40 percent
 - d. 60 percent
 - e. 75 percent

6. Which of the following is the best measure of labor input?
 - a. The employment-to-population ratio
 - b. The unemployment rate
 - c. The labor force participation rate
 - d. The employed labor force
 - e. Aggregate hours

7. The natural unemployment rate is the unemployment rate
 - a. when the economy is in a recession.
 - b. when real and potential GDP are equal.
 - c. when the economy is in a boom.
 - d. related to the business cycle.
 - e. when real and nominal GDP are equal.

8. The type of unemployment that occurs because technological changes make some jobs obsolete is known as
 - a. structural unemployment.
 - b. cyclical unemployment.
 - c. technological unemployment.
 - d. frictional unemployment.

9. Which of the following might cause the natural unemployment rate to increase?
 - a. Unemployment insurance being abolished
 - b. A recession in the economy
 - c. More young people entering the work force
 - d. An increase in migration to other countries
 - e. People having fewer children

10. Suppose there is a decline in the price level. This means that
 - a. the real wage decreases, and firms are willing to hire more people.
 - b. the real wage is unaffected by the inflation rate.
 - c. the real wage increases, and firms are willing to hire more people.
 - d. the real wage decreases, and firms are willing to hire fewer people.
 - e. the real wage increases, and firms are willing to hire fewer people.

11. The spending allocation model allows economists to determine how GDP is allocated among the major components of spending, which are
 - a. income, consumption, and savings.
 - b. consumption, savings, government purchases, and net exports.
 - c. consumption, investment, government purchases, and net exports.
 - d. consumption, savings, taxes, and net exports.
 - e. None of these

12. Which of the following best explains what will happen if the government purchases share of GDP falls?
 - a. The net export share of GDP will fall with it.
 - b. The consumption share of GDP will fall with it.
 - c. The investment, consumption, and/or net export share of GDP will rise.
 - d. The investment share of GDP will fall with it.
 - e. It is not clear whether any of the other shares will change since we don't know what happens to GDP.

13. The real interest rate is equal to the nominal interest rate
- minus the rate of expected inflation.
 - plus the rate of expected inflation.
 - minus the unemployment rate.
 - plus the unemployment rate.
14. The consumption share is negatively related to the real interest rate because a higher interest rate today
- makes current consumption more expensive relative to future consumption.
 - lowers the price of current consumption relative to the future.
 - makes future consumption more expensive relative to current consumption.
 - reduces current savings.
 - increases the government share.
15. An increase in the real interest rate leads to
- an upward movement along the consumption share line.
 - a rightward shift in the consumption share line.
 - a downward movement along the consumption share line.
 - a leftward shift in the consumption share line.
 - an ambiguous effect on the consumption share line.
16. Which of the following situations best explains a rightward shift in the consumption share line?
- A decrease in real interest rates
 - A decrease in income taxes
 - A decrease in the consumer confidence index
 - An increase in real interest rates
 - An increase in income taxes
17. When the real interest rate falls,
- the investment share will not be affected.
 - people will choose to consume more and investment will fall.
 - businesses are likely to decrease their purchases of new equipment and production facilities.
 - businesses are likely to increase their purchases of new equipment and production facilities.
 - people will choose to consume less and investment will fall.
18. Which of the following best describes the relationship between real interest rates and net exports?
- The relationship is positive.
 - There is no relationship because both imports and exports are unaffected by real interest rates.
 - The relationship is negative.
 - It is not possible to determine the relationship between the two because exports are negatively related to interest rates and imports are positively related to real interest rates.
 - It is not possible to determine the relationship between the two because exports are positively related to real interest rates and imports are negatively related to real interest rates.

19. A decrease in the United States interest rate relative to the Japanese interest rate will cause the exchange rate, measured in yen per dollar, to ____ as international investors ____ their demand for dollar-denominated assets.
- rise; increase
 - fall; increase
 - rise; decrease
 - None of these are correct because only the government can change the exchange rate.
 - fall; decrease
20. Which of the following statements is *true*?
- A higher exchange rate means cheaper exports and cheaper imports.
 - A higher exchange rate means more expensive exports and more expensive imports.
 - A higher exchange rate means more expensive exports and cheaper imports.
 - A higher exchange rate means cheaper exports and more expensive imports.
 - A higher exchange rate has no effect on the price of exports and imports.
21. Suppose the exchange rate in the year 2001 was 1 euro per dollar, and in 2010 the exchange rate increased to 2 euros per dollar. If the price of a German sweater was 50 euros in both years, the new dollar price in 2010 would be ____ and imports of German sweaters would ____.
- \$25; increase
 - \$25; decrease
 - \$100; increase
 - \$100; decrease
 - \$50; remain constant
22. A higher interest rate
- causes the exchange rate to increase, which causes the share of net exports to rise.
 - causes the exchange rate to fall, which results in a decline in the share of net exports.
 - causes the exchange rate to fall, which causes the share of net exports to rise.
 - causes the exchange rate to increase, which results in a decline in the share of net exports.
23. In a market economy, the interest rate adjusts to ensure equality among
- the investment, consumption, and net export shares of GDP and the share of GDP available for nongovernment use.
 - the investment, consumption, and net export shares of GDP and the government share of GDP.
 - the investment, consumption, and net export shares of GDP and GDP.
 - imports and exports.
 - the budget and trade deficits.
24. All else being constant, an increase in the government share of GDP would result in
- an increase in net exports.
 - a higher dollar exchange rate.
 - the interest rate remaining constant.
 - a lower interest rate.
 - a higher interest rate.

25. To bring about an increase in the share of GDP available for nongovernment use,
- there will have to be a tax increase.
 - government purchases will have to decline.
 - interest rates will have to decline.
 - government purchases will have to increase.
 - interest rates will have to increase.
26. If the government share of GDP equals 25 percent of GDP and the nongovernment share of GDP equals 80 percent of GDP, then
- interest rates will increase until the government share of GDP declines to 20 percent.
 - nothing will happen unless the government reduces its share of purchases.
 - interest rates will decrease, resulting in a decrease in the investment, consumption, and net export shares.
 - interest rates will increase, resulting in a decline in the investment, consumption, and net export shares.
 - GDP will increase, shrinking each share until the sum of all shares equals 1.
27. GDP is
- a measure of the value of all newly produced final goods and services in a country during some period of time.
 - a measure of the value of all goods and services produced in a country during some period of time, corrected for inflation.
 - a measure of the value of all goods and services sold in a country during some period of time.
 - a measure of the value of all goods and services produced by the nation's citizens during some period of time.
 - a measure of the value of all goods and services produced by the nation's citizens during some period of time, corrected for inflation.
28. When computing U.S. GDP, a good or service is weighted
- according to corporate concerns.
 - according to the quantity of the good or service available.
 - according to the concerns of pressure groups.
 - according to government directive.
 - according to its value.
29. Consumption expenditures include
- expenditures by households on goods and services produced only in the United States.
 - purchases of consumer goods produced in the United States by households, businesses, government, and other countries.
 - purchases of consumer goods produced in the United States and the rest of the world by households, businesses, government, and other countries.
 - expenditures by households on goods and services produced in the United States and the rest of the world.
 - the purchase of new homes by households.

30. Investment is
- the purchase of final goods by business firms.
 - the purchase of securities by business firms.
 - the purchase of intermediate goods by business firms.
 - the purchase of final goods by business firms and government.
 - the purchase of final goods by the government.
31. In which spending category would you enter the following transaction? A restaurant purchases fresh fish at the local fish market that it plans to sell as one of its nightly specials.
- None of these
 - Consumption
 - Government purchases
 - Investment
 - Net exports
32. In which spending category would you enter the following transaction if you were trying to calculate U.S. GDP? "People in France flock to see the latest Brad Pitt movie that was produced in Hollywood."
- Net exports
 - Consumption
 - Investment
 - Government purchases
33. In calculating GDP as income, which of the following best describes what net investment is?
- A measure of how much new investment there is each year after depreciation is added
 - A measure of how much new investment there is each year after depreciation has been subtracted
 - A measure of how much new investment there is each year after the appropriate taxes and net exports are subtracted
 - None of these is remotely related to a correct definition of net investment.
34. Which of the following statements about dissaving is the most accurate?
- Dissaving occurs when people stop saving.
 - Dissaving is more likely to occur among middle-aged people than among people in other age groups.
 - Individuals are dissaving when the amount they consume plus their taxes exceeds their income.
 - Dissaving only happens with the government.
 - Dissaving only occurs with the young.
35. A measure of production that corrects for inflation is
- real GDP.
 - nominal GDP.
 - value added.
 - the CPI.
 - the GDP price deflator.

36. The CPI is a measure of
- the price of all goods and services included in GDP.
 - the price of final goods sold by producers.
 - the price of consumer goods and services.
 - the price of raw materials and intermediate goods.
 - the price of domestically produced goods and services.

Exhibit 18-7

Item	2005 Quantity	2005 Price	2010 Price
Movie tickets	4	\$5.00	\$7.50
Bags of popcorn	2	\$3.00	\$3.00
Cans of soda	4	\$1.00	\$1.50

37. The information in Exhibit 18-7 gives the 2005 base period market basket and prices used to construct the CPI for a small nation. It also has the 2010 prices. What is the value of the CPI for the base period 2005?
- 1.33
 - 1.00
 - 0.71
 - 1.40
 - 1.25
38. The information in Exhibit 18-7 gives the 2005 base period market basket and prices used to construct the CPI for a small nation. It also has the 2010 prices. What is the value of the CPI for the period 2010?
- 1.00
 - 1.40
 - 1.33
 - 0.71
 - 1.25
39. A system in which the government essentially owns and controls all production is called
- capitalism.
 - socialism.
 - a market system.
 - a *laissez faire* system.
 - a mixed economy.
40. Which of the following statements is *false*?
- In a centrally planned economy, decisions concerning the three essential questions are made by those who control the government.
 - In a market economy, firms do not interact with consumers.
 - The two alternative approaches to the three essential questions are market economies and command economies.
 - In a market economy, decisions concerning the three essential questions result from interactions taking place in markets.
 - In both centrally planned and market economies, the three essential economic questions are what, how, and for whom.

