NAME \_\_\_\_\_\_KEY \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ PERIOD \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Exam 1: Put your name and period on both your test and answer sheet. Choose the best answer for each question and mark the corresponding letter on your Scantron sheet. The last questions are short answer. Please answer them on the test. Each question is worth 2 points. Total of 70 pts.

1. (1 on retake) The term business cycle refers to
   1. The length of time needed for a firm to purchase inputs, produce its output, and generate sales revenue.
   2. Fluctuations in the level of aggregate output that occur in an economy.
   3. The pattern of increases and decreases in the money supply.
   4. The development of an economy from an agricultural economy to an industrialized economy.
2. The business cycle consists of several phases. Which of the following is an accurate sequence of the phases?
   1. Expansion, recession, peak, trough
   2. Expansion, trough, recession, peak
   3. Expansion, peak, trough, recession
   4. Expansion, peak, recession, trough
3. A recession is commonly defined as a period when
   1. Output (GDP) decreases for more than 2 consecutive quarters
   2. Output (GDP) decreases for more than 4 consecutive quarters
   3. The unemployment rate exceeds 10% for more than 2 consecutive quarters
   4. Structural unemployment increases
4. Gross domestic product is the total market value of all
   1. Intermediate goods and services in an economy during a given period
   2. Final goods and services produced in an economy during a given period
   3. Intermediate and final goods and services produced in an economy during a given period
   4. Natural resources that are found within the borders of a country
5. Rapid growth has increased the per capita income of citizens of China because
   1. Chinese educational standards have decreased
   2. The capital stock in China has decreased
   3. Real GDP has increased faster than the population has increased
   4. People in China are now living longer
   5. The population has increased while production has decreased
6. (2 on retake) Suppose that a dealer purchases a rare 50 year old stamp for $400 and sells it to a collector for $600. What is the change in GDP from this transaction?
   1. $0
   2. $200 THIS IS LIKE THE SALE OF AN EXISTING HOUSE (ASSET) 600-400 = 200
   3. $400
   4. $600
   5. $1000

Suppose that the Bureau of Labor Statistics gathers the following information from its monthly telephone survey of households. Numbers are in the millions

Children < 16 (not working at all for pay) 70

Retired people (not working for pay) 35 Work force

Adults with full-time jobs 100 Work force, Labor Force, Emp.

Adults with part-time jobs 40 Work Force, Labor Force, Emp

Adults serving in the military 6

Adults in prison 3

Full-time homemakers 25 Work force

Full-time students (not working for pay) 10 Work force

Disabled adults unable to work (technically could be in WF- crossed out # on exam)

Adults without jobs but searching within past 4 weeks 10 Work force, Labor force, Unemp

Adults without jobs but not actively looking for work 4 (was changed to 6 on exam) Work Force, Labor Force

1. (3 on retake) What is the size of the labor force in this economy?
   1. 140
   2. 144
   3. 150 Labor Force = Employed + Unemployed = FT work (100)+ PT work (40) + searching (10)
   4. 154
   5. 226
2. (4 on retake) What is the unemployment rate for this economy in this month?
   1. 6.7% unemployed/labor force = 10/150
   2. 7.1%
   3. 9.1%
   4. 9.7%
   5. 12.2%
3. (5 on retake) What is the labor force participation rate in this economy?
   1. 66% Labor force/work force = 150/226
   2. 68%
   3. 73%
   4. 77%
4. If some unemployed workers become discouraged about finding work and stop searching, which of the following situations would result?
   1. The labor force would decrease and the unemployment rate would decrease.
   2. The labor force would decrease and the unemployment rate would remain the same.
   3. The labor force would increase and the unemployment rate would decrease.
   4. The labor force would decrease and the unemployment rate would increase.
   5. The labor force would increase and the unemployment rate would remain the same.
5. (6 on retake) Structural unemployment
   1. Is a short-term joblessness experience by those who are between jobs
   2. Is joblessness created by a mismatch between firms’ needs and workers’ skills
   3. Is joblessness created by regular seasonal events such as holidays or weather changes
   4. Is joblessness created entirely by women entering the labor force after staying home to raise children
   5. Is joblessness created by changes in the business cycle
6. The primary cost of unemployment to society is
   1. The value of leisure that is lost when people are unemployed
   2. The psychological cost to the unemployed person from not having a job
   3. Money spent on the job search process
   4. The chance that the unemployed might turn to crime to support themselves
   5. The value of output that could have been produced but is not
7. (7 on retake) The basket of products used for calculating the consumer price index (CPI) includes
   1. Goods and services purchased by a typical American consumer
   2. Goods and services included in the computation of GDP
   3. Goods and services purchased by the government
   4. Investment goods purchased by businesses
   5. Exports purchased by foreign consumers
8. (8 on retake) Which of the following is a direct, accurate link within the circular flow?
   1. Goods and services are exchanged for inputs via the factor markets
   2. Wages and rents are exchanged for income via the product markets
   3. Household expenditures result in revenues for firms via the product markets
   4. Household income results in revenues via the factor markets
   5. Firms exchange revenues for land, labor, and capital via the product markets

Use the information below to answer the following questions. Assume that 1990 is the base year.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 1990 Price | 1990 Quantity | 2011 Price | 2011 Quantity |
| Gasoline | $1.30 | 10 | $1.90 | 15 |
| Movie Tickets | $5.00 | 2 | $7.00 | 4 |
| Bottled Water | $1.00 | 20 | $1.40 | 22 |

1. (9 on retake) What is the consumer price index in 2011?
   1. 100.0
   2. 141.9
   3. 165.1
   4. 203.0
   5. 243.3
2. Suppose that the CPI for 2011 is 152.1 and the CPI for 2012 is 148.8. What is the rate of inflation between 2011 and 2012?
   1. -3.3%
   2. -2.2%
   3. +1.2%
   4. +2.2%
   5. +3.3%
3. (10 on retake) If the consumer price index is increasing more rapidly than your nominal income, then
   1. Your real income is increasing
   2. Your real income is decreasing
   3. Your real income remains unchanged
   4. It is not possible to determine your real income
4. (11 on retake) Suppose that the nominal interest rate is 5% and the CPI increases by 2% this year. The real rate of interest is approximately
   1. 5%
   2. 3%
   3. 2%
   4. -2%
   5. -3%
5. An economy in which resources are allocated according to individual decision making
   1. Traditional
   2. Command
   3. Market
   4. Socialist
6. A system of resource ownership where the resources are owned by the government is called
   1. Socialism
   2. Capitalism
   3. Traditionalism
   4. Republic
7. The Rule of 70 is
   1. How long it takes for an economy to go through a complete business cycle
   2. Is the same as Okun’s Law
   3. The age people will retire at in the future
   4. How long it will take for a country’s GDP per capita to double
8. The 4 keys to economic development are
   1. System of property rights, educated population, creative destruction, limited protectionism
   2. System of property rights, shrinking population, preserving production facilities, limited protectionism
   3. System of closed trade, educated population, centralized resource management, strict government control
   4. System of open trade, growing population, creative destruction and isolationism
9. (12 on retake) The combination of high prices, devalued money and high unemployment
   1. Inflation
   2. Deflation
   3. Hyperinflation
   4. Stagflation
   5. Competition
10. (13 on retake) The long-run aggregate supply curve
    1. Has a downward slope to the right
    2. Has an upward slope to the right
    3. is a horizontal line
    4. is a vertical line
    5. curves down to the right
11. The government decides to raise the minimum wage from $8 to $10/hour. The equilibrium hourly wage in the labor market is $9/hour. Draw a graph to illustrate this. Explain what happens to the labor market after this change takes place.

Unemployment goes up (shortage of demand for labor, more want to work than employers willing to hire at new minimum wage)

For each of the following, illustrate the long run impact on the real GDP and PPC

1. Increased immigration = both go up
2. The development of the internet = both up
3. Aging population resulting in an increasing proportion of retiree = both down

The table below reports various economic statistics for the country of Happyland in 2011. $ are in millions. Use the relevant information to answer the following questions.

|  |  |
| --- | --- |
| Consumer durable goods | $1200 C |
| Consumer non-durable goods | $2000 C |
| Consumer services | $600 C |
| Wages and salaries | $3200 Wage – Income |
| Rental income | $1400 Rent – Income |
| Interest income | $1600 Interest - Income |
| Business purchases of buildings and equipment | $1400 I |
| Corporate profits | $1200 Profits = income |
| New residential home construction | $700 I |
| Purchase of existing houses (no profit) | $900 |
| Personal savings | $1700 |
| Changes in inventories | $100 I |
| Purchase of corporate stock | $800 |
| Government purchases of goods and services | $1500 G |
| Social Security Payments | $500 |
| Income taxes | $1900 |
| Exports | $600 NX |
| Imports | $700 NX |
| Payments abroad to domestic labor | $500 GNP |

1. (14 on retake) What is the value of consumption expenditures for Happyland?

CONSUMPTION is the key word! 1200 + 2000 + 600 = 3800m

1. (15 on retake) What is the value of private investment spending for Happyland?

INVESTMENT is the key word! (new homes, inventory changes, business purchases) 1400 + 700 + 100 = 2200m

1. (16 on retake) What is the value of GDP for Happyland? Expenditure approach = C + I + G + NX

= (1200 + 2000 + 600 ) + (1400 + 700 + 100) + 1500 + (600 – 700) = 7400m

Income approach = Rent + Wages + Interest + Profits

= 1400 + 3200 + 1600 + 1200 = 7400m

1. (17 on retake) What is the value of GNP for Happyland? GDP + Payments abroad to domestic labor = 7400 + 500 = 7900m

For each of the following situations, indicate what will happen to the equilibrium price and equilibrium quantity in each market indicated after the stated event occurs. Draw a demand and supply graph to illustrate each situations. Label curves and axes.

1. The market for bottled water when lab tests indicate the presence of hazardous chemicals in private household wells

Price up, Quantity up = Demand shift right

1. The market for salsa when the price of tortilla chips increases significantly

Complimentary good = Demand shifts down

1. The market for tofu (made from soybeans) when a serious drought occurs in the U.S. Q down = S shifts left