

I. Multiple Choice: read each question carefully and pick the best response. Then transfer your response to the answer sheet. The response on the answer sheet will be assumed to be your final answer. (3 pts each)

1. All economic systems must answer certain fundamental economic questions. Which is *not* one of these questions?
 - A) Which actions should government take to reduce inflation?
 - B) How will the goods and services be produced?
 - C) What goods and services will be produced?
 - D) Who is to receive the output?

2. The most efficient combination of resources in producing any output is that which:
 - A) comes closest to using equal quantities of land, labor, capital, and entrepreneurship.
 - B) conserves most on those resources which are most plentiful.
 - C) uses the smallest total quantity of all resources.
 - D) can be employed at the least possible cost.

3. By "the functional distribution of income" we mean:
 - A) the allocation of income to families.
 - B) the percentage of national income paid as wages, rents, interest, and profits.
 - C) how incomes are allocated to consumption expenditures, taxes, and saving.
 - D) how consumers allocate their spending among durable goods, nondurable goods, and services.

4. Which is numerically the dominant type of business in the United States?
 - A) corporations
 - B) sole proprietorships
 - C) partnerships
 - D) cooperatives

5. Which is true of partnerships?
 - A) Each partner is responsible for all business debts.
 - B) Each partner is liable for only his or her share of business debts.
 - C) All partners are protected by the concept of limited liability.
 - D) Each partner must post a bond to guarantee that all business debts will be paid.

6. The principal-agent problem in corporations arises from:
 - A) the fact that the principal objective of most corporations is to make profits and not to contribute to charity.
 - B) a conflict of interest between corporate executives who manage the firm and stockholders who own the firm.
 - C) the view that workers are agents who are not considered to be the principal asset of the corporations for which they work.
 - D) a perspective that corporations are agents that represent the principal source of power for government and the national economy.

7. If an action results in spillover costs, then the market:
 - A) price is below the optimal price to society.
 - B) price is above the optimal price to society.
 - C) supply curve is too low.
 - D) quantity is too low.

8. If government intervenes when spillover costs exist in an industry, it should attempt to shift the industry:
 - A) demand curve to the left.
 - B) supply curve to the left.
 - C) demand curve to the right.
 - D) supply curve to the right.

9. From an economist's perspective, which is *not* considered to be an investment?
 - A) construction of a new factory
 - B) purchase of shares of company stock
 - C) the building of an apartment complex
 - D) additions to inventories at steel plants

10. Net exports is a negative number when:
 - A) a nation's imports of goods and services fall.
 - B) a nation's imports of goods and services rise.
 - C) a nation's exports of goods and services are greater than its imports.
 - D) a nation's imports of goods and services are greater than its exports.

Use the following to answer question 11:

(GDP figures are in billions of dollars.)

Year	Nominal GDP	Real GDP	Price index
1	5,200	4,800	
2	5,500		112
3	5,740	5,000	

11. Refer to the above table. What is the GDP price index in Year 1?
 - A) 105.2
 - B) 108.3
 - C) 109.6
 - D) 111.5

Use the following to answer question 12:

Assume an economy is producing only one product. Year 2 is the base year. Output and price data for a five-year period are given.

Year	Units of output	Price per unit
1	4	\$ 4
2	5	5
3	7	8
4	9	9
5	10	10

12. Refer to the above data. For the years shown, the growth of:
- A) real GDP has exceeded the growth of nominal GDP.
 - B) nominal GDP exactly reflects increases in real output.
 - C) nominal GDP overstates increases in real output.
 - D) nominal GDP understates increases in real output.
13. Some of the production of an economy creates pollution. As a result:
- A) nominal GDP is greater than real GDP.
 - B) real GDP is greater than nominal GDP.
 - C) GDP tends to understate social welfare.
 - D) GDP tends to overstate social welfare.
14. Real GDP was \$9,950 billion in Year 1 and \$10,270 billion in Year 2. What was the approximate rate of economic growth from Year 1 to Year 2?
- A) 1.6 percent
 - B) 2.4 percent
 - C) 3.2 percent
 - D) 4.3 percent
15. In calculating the unemployment rate, "discouraged" workers who are not actively seeking employment are:
- A) excluded.
 - B) included.
 - C) treated the same as part-time workers.
 - D) used to determine the size of the labor force.
16. Kevin has lost his job in an automobile plant because of the use of robots for welding on the assembly line. Kevin plans to go to technical school to learn how to repair microcomputers. The type of unemployment Kevin is faced with is:
- A) cyclical.
 - B) frictional.
 - C) structural.
 - D) natural.
17. Inflation caused by a rise in per unit production costs is referred to as:
- A) cost-push inflation.
 - B) demand-pull inflation.
 - C) unanticipated inflation.
 - D) hyperinflation.

18. Unanticipated inflation tends to penalize:
- A) people who save money in financial institutions.
 - B) individuals who borrow money from financial institutions.
 - C) businesses which borrow money from financial institutions.
 - D) governments which have a progressive personal income tax.

II. Short Answer Questions: Answer each in the space provided.

1. In a well developed essay, describe the five major national income accounts, paying particular attention to the differences in what each tells you. In this essay, describe the difference between GDP and GNP and why we need to adjust to GNP when calculating the Income accounts. Finally, describe the difference between nominal and real measures of GDP. (18 pts)

2. The next four questions refer to the following price and output data over a five-year period for an economy that produces only one good. Assume that year 2 is the base year. (12 pts)

<u>Year</u>	<u>Units of output</u>	<u>Price per unit</u>
1	16	\$2
2	20	3
3	30	4
4	36	5
5	40	6

- (a) If year 2 is the base year, give the price index for year 3. _____
- (b) Give the nominal GDP for year 4. _____
- (c) What is the real GDP for year 4? _____
- (d) Tell which years you would deflate nominal GDP and which years you would inflate nominal GDP in finding real GDP.

Deflate: _____

Inflate: _____

3. Given the following information on some economy: (16 pts)

		<u>1999</u>	<u>2000</u>	<u>2001</u>
Working Age Population	=	600,000	600,000	600,000
Employed	=	360,000	360,000	375,000
Unemployed, looking for work	=	40,000	25,000	25,000
Consumer Price Index	=	150	145	150

Calculate for each year:

a) Labor Force Participation
Rate

b) Unemployment Rate

c) the Inflation Rate from the
previous year

d) Briefly describe what you think occurred (in terms of the state of the economy – phase of the business cycle - and the reactions of workers) between the years:

1999 - 2000:

2000 - 2001: