

HW 2
Macroeconomics 102
Due on 06/12

1. What are the three important macroeconomic goals about which most economists, and society at large, agree?
- economic growth, full employment, and low interest rates
 - economic growth, full employment, and stable prices
 - economic growth, zero unemployment, and falling prices
 - economic growth, low unemployment, and a balanced budget
 - economic growth, a balanced budget, and balanced international trade

ANS: B

2. Macroeconomics is best suited to answering questions such as
- what determines the unemployment rate among students on this campus
 - why rent is higher in big cities than in smaller ones
 - how fast the overall price level will rise next year
 - what determines the demand for public transportation in rural areas
 - why sales taxes in this area are increasing

ANS: C

3. An understanding of macroeconomics is valuable because it can help
- in making purchase decisions
 - us to understand the forces that determine how fast the economy grows
 - us to understand why some firms earn more economic profit than others
 - to minimize the amount of tax an individual owes
 - minimize the opportunity cost of making poor decisions

ANS: B

4. Which of the following is a major macroeconomic goal?
- low prices
 - declining prices
 - pure competition
 - stable prices
 - high prices

ANS: D

5. Economists monitor economic growth by studying
- the unemployment rate
 - population growth
 - the total quantity of goods and services produced in the United States each year
 - the inflation rate
 - the distribution of income among U.S. states

ANS: C

6. In only one of the following situations is a nation's standard of living certain to increase. Which one?
- a. Real GDP rises faster than population.
 - b. Real GDP rises faster than the price level.
 - c. Real GDP rises.
 - d. Real GDP rises faster than the number of people employed.
 - e. Real GDP rises faster than the growth rate of output.

ANS: A

7. Output per person rises when
- a. the population increases faster than real GDP
 - b. the standard of living decreases
 - c. real GDP increases at the same rate as the population
 - d. real GDP rises slower than the population
 - e. real GDP rises faster than the population

ANS: E

8. If real GDP is increasing at a 2 percent annual rate while the unemployment rate is 7 percent, the economy is
- a. not achieving full economic potential
 - b. producing the greatest possible amount of goods and services
 - c. experiencing a slump
 - d. experiencing high prices and low inflation
 - e. producing along its production possibilities frontier

ANS: A

9. If the unemployment rate has reached an all-time low, the production of output is probably
- a. high
 - b. low
 - c. fluctuating
 - d. stable
 - e. inefficient

ANS: A

10. The phase of the business cycle characterized by rising output is called a(n)
- a. peak
 - b. recession
 - c. depression
 - d. trough
 - e. expansion

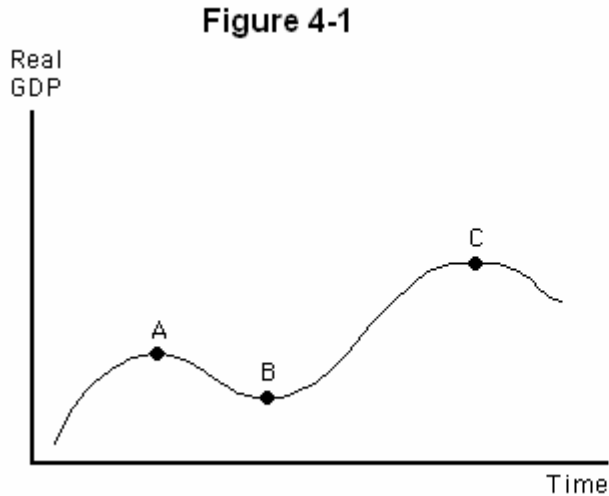
ANS: E

11. Recessions are identified by
- a. severe and long-lasting phases of decreased output
 - b. high employment
 - c. increasing output
 - d. decreasing output
 - e. low unemployment

ANS: D

12. Periodic fluctuations in real GDP are called
- business cycles
 - recessions
 - peaks
 - expansions
 - troughs

ANS: A



13. Refer to Figure 4-1. If the economy moves from point A to B on the graph, it is going through a(n)
- peak
 - trough
 - expansion
 - boom
 - recession

ANS: E

14. Which of the following is a period of decreasing output that is severe and long lasting?
- business cycle
 - expansion
 - peak
 - recession
 - depression

ANS: E

15. The inflation rate
- explains how prices are reacting to economic policies
 - indicates the level of output of all firms in the economy
 - measures the annual percent increase in the average level of prices
 - measures how fast wages and incomes are rising
 - determines the prices that firms will offer to customers

ANS: C

16. Over the past 75 years, the inflation rate has
- generally increased
 - been positive in most years
 - stayed low
 - been negative in most years
 - dramatically increased

ANS: B

17. John Maynard Keynes, author of *The General Theory of Employment, Interest, and Money*, argued that
- economists should develop policies to encourage employment
 - the government should follow a policy of *laissez faire*
 - the critiques of classical economics were flawed
 - the economy does not always perform well in the absence of government guidance
 - instead of focusing on money, the government should control interest rates

ANS: D

18. The occurrence of the Great Depression offered evidence that supported
- the classical theory of economics
 - the need for the government to practice the policy of *laissez faire*
 - the need for the government to control prices
 - Congress to take action to stop rising prices
 - the Keynesian idea that the government needed to guide the economy

ANS: E

19. The term *laissez faire* can be translated
- "leave it alone"
 - "make it equitable (fair)"
 - "take an active role"
 - "markets work"
 - "free of problems"

ANS: A

20. The group of economists who believed that the macroeconomy worked very well on its own were
- Microeconomists
 - Macroeconomists
 - classical economists
 - Keynesian economists
 - Marxist economists

ANS: C

21. *Gross domestic product (GDP)* is
- the total value of all goods and services produced for the marketplace during a given period, within a nation's borders
 - the total value of all final goods and services produced for the marketplace during a given period, by a nation's citizens and businesses
 - the total value of all final goods and services produced for the marketplace during a given period, within a nation's borders
 - the total value of all goods and services produced for the marketplace during a given period, by a nation's citizens and businesses
 - the total value of all goods, services and inputs produced for the marketplace during a given period, within a nation's borders

ANS: C

22. The precise definition of *GDP* is: the total value of all
- goods and services produced by a nation, minus household labor
 - goods and services produced by a nation, minus depreciation
 - goods and services produced for the marketplace during a given period
 - final goods and services produced for the marketplace during a given period, within a nation's borders
 - final goods and services produced within a nation's borders during a given period

ANS: D

23. A Texas oil company extracts petroleum and sells it to a refinery for \$1,000. After processing, the refinery sells the gasoline to a wholesaler for \$1,500, who then sells it to a gas station for \$1,700. The gas station sells it to customers for \$2,500. In these transactions, how much has been added to GDP?
- \$1,000
 - \$1,500
 - \$1,700
 - \$2,500
 - \$6,700

ANS: D

24. Which of the following would be included in a year's GDP?
- Susan cleans the fuel injectors on her car.
 - A private individual purchases 100 shares of IBM stock.
 - A timber company purchases land in Oregon.
 - A consumer buys an antique desk.
 - A college professor purchases a new computer.

ANS: E

25. What is the difference between an intermediate good and a final good?
- Final goods are adjusted for depreciation, intermediate goods are not.
 - Final goods are adjusted for changes in the value of the dollar, intermediate goods are not.
 - In GDP calculations, final goods are counted as consumption spending, intermediate goods are counted as private investment spending.
 - There is no meaningful difference between them.
 - Final goods are finished and ready for sale; intermediate goods require further processing.

ANS: E

26. The sale of which of the following would appear without any modification in GDP?
- used automobiles
 - iron ore mined from the ground
 - maid services
 - aluminum rods used in construction
 - wood pulp

ANS: C

27. This year, Tom sold his 1998 minivan to Honest John's Used Car Emporium for \$5,000. Honest John then sold the van to Bob for \$7,000. How much would be recorded in GDP this year from these transactions?
- \$0
 - \$2,000
 - \$5,000
 - \$7,000
 - \$12,000

ANS: B

28. If we included the purchases of used goods in GDP,
- we would be overestimating GDP
 - we would be underestimating GDP
 - we would be accurately measuring GDP
 - the effect on GDP would vary depending on what year the goods were sold new
 - we could offset any measurement problems by also including purchases of stocks and bonds

ANS: A

29. Which of the following is the best example of a stock variable?
- U.S. GDP in 2004
 - the daily sales of economics textbooks by South-Western Publishing
 - Bill Gates' annual salary from Microsoft Corporation
 - the total wealth of the 50 richest U.S. citizens
 - U.S. government purchases during 2004

ANS: D

30. GDP is a flow variable because
- all macroeconomic aggregates are flow variables
 - it measures the production that takes place over a period of time
 - it measures the amount of goods and services that exist at the end of a time period
 - the number of goods and services produced is usually a fixed number
 - it accounts for the goods and services transferred from one firm to another

ANS: B

31. In the expenditure approach to measuring GDP, we add the values of all
- intermediate goods in addition to all final goods purchased
 - goods and services purchased by each type of final user
 - goods and services purchased in the United States
 - goods and services purchased by intermediate and final users

e. output produced by U.S. firms

ANS: B

32. Assume net exports are -\$220, consumption is \$5,000, tax revenues are \$1,000, government purchases are \$1,500, and 2003 GDP, calculated by the expenditure approach, is \$8,000. We can conclude that
- a. private investment was \$1,940
 - b. public investment was \$310
 - c. private investment was \$320
 - d. private investment was \$1,720
 - e. public investment was \$1,730

ANS: D

33. Which of the following describes the relationship between GDP and government spending?
- a. $\text{government spending} = \text{GDP} + \text{consumption} + \text{private investment} - \text{exports} - \text{imports}$
 - b. $\text{government spending} = \text{GDP} - \text{consumption} - \text{private investment} - \text{exports} - \text{imports}$
 - c. $\text{government spending} = \text{GDP} - \text{consumption} - \text{private investment} + \text{exports} + \text{imports}$
 - d. $\text{government spending} = \text{GDP} - \text{consumption} - \text{private investment} - \text{exports} + \text{imports}$
 - e. $\text{government spending} = \text{GDP} + \text{consumption} - \text{private investment} + \text{exports} - \text{imports}$

ANS: D

34. An example of a capital good is
- a. food produced by U.S. farmers in 2003
 - b. the pickup truck that your friend drives to school
 - c. a house owned and occupied by a family
 - d. the rent your friend paid last year for a college apartment
 - e. a share of General Electric Company stock

ANS: C

35. When we add the up value of all capital goods, we determine
- a. private investment
 - b. the capital stock
 - c. a flow phenomenon
 - d. GDP
 - e. inventory

ANS: B

36. Fun Time Toys produced \$60 million worth of toys in 2003. Because of a slow Christmas shopping season, only \$50 million worth was sold to consumers, and the remaining \$10 million worth went into inventories. Based on this information, how was GDP affected in 2003?
- a. \$60 million was added to GDP; \$50 million was classified as consumption spending and \$10 million was classified as private investment
 - b. \$60 million was added to GDP, all classified as consumption spending
 - c. \$50 million was added to GDP, all classified as consumption spending
 - d. \$40 million was added to GDP; \$50 million was classified as consumption and -\$10 million was classified as private investment
 - e. \$40 million was added to GDP, all classified as consumption

ANS: A

37. Assume that the telephone company built a new plant this year. The value of the new plant is
- counted in GDP as public investment
 - not counted in GDP
 - not included in private investment spending
 - an intermediate good, but it is not counted in GDP
 - included in GDP

ANS: E

38. Which of the following would be considered a component of government purchases?
- both d and e
 - all of the following
 - welfare payments
 - police salaries
 - social security payments

ANS: D

39. Which of the following describes the relationship between net exports and imports?
- net exports = imports + exports
 - net exports = exports - imports
 - net exports = imports - exports
 - imports = net exports - exports
 - imports are not related to net exports

ANS: B

40. What is the main factor that explains why government spending typically exceeds government purchases?
- imports exceed exports
 - transfer payments
 - federal debt
 - government budget deficits
 - construction of schools

ANS: B

41. Using the table below, calculate GDP for a particular year.

Consumption spending	\$1,000
Wages and salaries	\$800
Rent	\$100
Government purchases	\$200
Profit	\$300
Exports	\$400
Interest	\$250
Private investment spending	\$400
Imports	\$550

Based on the above information, GDP in this year was

- a. \$1,450
- b. \$2,000
- c. \$2,550
- d. \$2,900
- e. \$4,000

ANS: A

42. A firm's *value added* is

- a. the revenue it receives by selling its output
- b. usually not included in GDP
- c. the revenue it receives for its output, minus the cost of all the intermediate goods it buys
- d. the revenue it receives for its output, plus the cost of all the intermediate goods it buys
- e. the revenue it receives for its output, minus the cost of the resources it uses producing that output

ANS: C

43. The factor payments measure of GDP

- a. can be expressed as $GDP = C + I + G + NX$
- b. is found by summing all expenditures on final goods and services during the year
- c. calculates how much value was added at each stage of production
- d. is found by summing all interest, rent, profit, and wages and salaries generated during the year
- e. calculates how much workers paid for goods and services during the year

ANS: D

44. If GDP is \$1,000, consumption is \$750, interest payments are \$200, rent payments are \$400, and profits are \$200, what must wages and salaries equal?

- a. \$800
- b. \$400
- c. \$250
- d. \$0
- e. \$200

ANS: E

45. *Real GDP* is nominal GDP

- a. plus depreciation
- b. adjusted for changes in the price level
- c. minus depreciation
- d. minus taxes
- e. minus inflation

ANS: B

46. Suppose that population grows by 2 percent annually. For the standard of living to rise, which of the following must occur?

- a. Nominal GDP must grow by more than 2 percent.
- b. Real GDP must grow by more than 2 percent.
- c. Real GDP per capita must grow by more than 2 percent.

- d. Consumption spending must grow by more than 2 percent.
- e. Private investment spending must grow by more than 2 percent.

ANS: B

47. Kara is a construction worker. Because of adverse weather during the winter, she has been laid off from her job. She is available for work and has even sought work with other construction companies. Kara is
- a. experiencing frictional unemployment
 - b. experiencing seasonal unemployment
 - c. experiencing structural unemployment
 - d. experiencing cyclical unemployment
 - e. not in the labor force at this time

ANS: B

48. Seasonal unemployment
- a. is short-term joblessness experienced by those entering the labor market for the first time
 - b. arises from a mismatch between available jobs and workers' skills or geographic location
 - c. is joblessness affecting people such as construction workers, farm workers and retail sales clerks after the Christmas shopping season
 - d. is joblessness resulting from business cycle movements
 - e. does not exist when the economy is at full employment

ANS: C

49. Dennis is an excellent typist. However, because he has been unable to adapt to his company's new computer system, he has lost his job. He is currently seeking another secretarial position, but it is likely that he will have to acquire new skills to become employable as a secretary again. Dennis would best be described as
- a. frictionally unemployed
 - b. seasonally unemployed
 - c. structurally unemployed
 - d. cyclically unemployed
 - e. not in the labor force

ANS: C

50. Which of the following categories of unemployment arises from macroeconomic causes?
- a. temporary unemployment
 - b. underemployment
 - c. structural unemployment
 - d. frictional unemployment
 - e. cyclical unemployment

ANS: E

51. When is the U.S. economy at full employment?
- a. when there is no cyclical unemployment
 - b. when there is no structural unemployment
 - c. when there is no full employment
 - d. when there is no seasonal unemployment
 - e. when there is no frictional unemployment

ANS: A

52. If the full-employment rate of unemployment is 5 percent, and the economy is experiencing a 7 percent unemployment rate, what is the rate of cyclical unemployment?
- a. 8 percent
 - b. -3 percent
 - c. -2 percent
 - d. 5 percent
 - e. 2 percent

ANS: E

53. What fraction of the labor force is cyclically unemployed when structural unemployment is 2 percent, frictional unemployment is 2.5 percent, seasonal unemployment is 1 percent, and the overall unemployment rate is 8 percent?
- a. 2.5 percent
 - b. 13.5 percent
 - c. 4.5 percent
 - d. 5.5 percent
 - e. 8 percent

ANS: A

54. The chief economic cost of unemployment is
- a. the value of the leisure that is lost when people are unemployed
 - b. the cost to employed citizens of paying unemployment benefits
 - c. money spent on the job search process
 - d. the chance that the unemployed might turn to crime to support themselves
 - e. the value of output that could have been produced, but is not

ANS: E

55. The human costs of unemployment are
- a. insignificant
 - b. not as important as the economic costs of unemployment
 - c. more important than the economic costs of unemployment
 - d. not measured in dollars, but are extremely important considerations
 - e. the opportunity cost of lost output

ANS: D

56. To be considered employed, a person must have
- a. worked at least 1 hour during the previous week
 - b. searched at least 1 hour for a job during the previous week
 - c. worked at least 5 hours during the current week
 - d. worked at least 15 minutes during the previous month
 - e. earned at least the minimum wage for five or more hours of work per week

ANS: A

57. Assume that the U.S. population is 260 million. If 100 million individuals are legally classified as unable to work (or are less than 16 years of age), 60 million are classified as unwilling to work, and 7 million are unemployed, what is the unemployment rate?
- a. 2.7 percent

- b. 3.7 percent
- c. 4.4 percent
- d. 7.0 percent
- e. 7.7 percent

ANS: D

58. Which of the following is the best definition of the *unemployment rate*?
- a. a measure of the number of people searching for work but without jobs
 - b. a measure of the number of people discouraged with the labor market and without work
 - c. a measure of the number of people not working
 - d. a measure of the number of people that do not need to work
 - e. a measure of the number of people willing and able to work

ANS: A

59. Which of the following groups would *not* be considered part of the labor force?
- a. U.S. senators
 - b. self-employed individuals
 - c. individuals who are employed five hours (or less) per week
 - d. individuals who have given up looking for work because they have been unable to find a job
 - e. Social Security recipients who work part time

ANS: D

Short Answer type question:

1. In 1973, real GDP (at 1996 prices) was \$4213 billion. In 2000, it was \$9191 billion. During the same period, the population rose from 212 million to 281 million
- a) what was the total percentage increase in real GDP?
 - b) what was the total percentage increase in population during this period?
 - c) Calculate real GDP per person in 1973 and in 2000. By what percentage did output per person grow over this period?

Ans: a. The total percentage increase in real GDP from 1973 to 2000 was $((\$9191 - \$4213)/\$4213) = 122.9\%$.

b. The total percentage increase in the U.S. population during this period was $((281 - 212)/212) = 32.5\%$

c. Real GDP per person in 1973 was $\$4213/212 = \$19,448.11$. Real GDP per person in 2000 was $\$32,708.19$. Output per person grew by 68% over this period.

2. Suppose in 2005, someone buys a GM automobile for \$30000. The same year, GM produced the car in Michigan, using \$10000 parts imported from the Japan.

However, the parts imported from Japan themselves contained \$3000 in components produced in the US. Question is: By how much does US GDP rise. (*Play with this problem- may be important for Exam2*)

Ans: US GDP rises by $\$23000 = \$30000 - (\$10000 - \$3000)$