1. If actual GDP falls below potential GDP, what happens to the shortfall?
   a. It can be regained at a later date.  b. It is lost forever.
   c. It can be stored for later usage.  d. It is automatically recovered when the economy recovers.

2. When the economy does not generate enough jobs to employ all those who are willing to work,
   a. unemployment insurance spreads the cost over the entire population and eliminates the basic economic cost.
   b. unemployment insurance and other social welfare programs prevent any serious economic costs to society.
   c. potential goods and services that might have been enjoyed by consumers are lost forever.
   d. no valuable economic resources are lost.

3. The real economic cost of high unemployment is
   a. the money cost of unemployment insurance payments to the unemployed.
   b. the lost tax revenue that might have been paid by persons if they had worked.
   c. the money cost of retraining persons to obtain new jobs.
   d. the difference in income between a person's lost job and new job.
   e. the potential goods and services that might have been produced but weren't.

4. Suppose that everyone who has looked for a job for more than six months gave up in despair and stopped looking. What would happen to the unemployment rate?
   a. It would increase.  b. It would change, but the effect cannot be predicted.
   c. It would fall.  d. It would rise temporarily, then fall to its original level.

5. In the early 1990s, many large corporations "downsized" by cutting out one or more layers of management. Persons who lose jobs in this case are considered
   a. frictionally unemployed.  b. cyclically unemployed.
   c. structurally unemployed.  d. discouraged workers.

6. Why does the United States have higher frictional unemployment than other countries?
   a. because of high structural unemployment
   b. because full employment is difficult to attain
   c. because the labor market is more fluid in the United States than in most other countries
   d. because automation is displacing workers who were previously employed

7. Cyclical unemployment
   a. declines during recessions.  b. increases during periods of rising prosperity.
   c. results from a decline in the economy's total production.  d. occurs regularly every seventh year.

8. The development of a nationwide, computerized job bank listing all job openings would be most likely to reduce
   a. structural unemployment.  b. frictional unemployment.
   c. seasonal unemployment.  d. cyclical unemployment.

9. If all prices including wages increased at the same, constant rate, inflation would
   a. hurt the rich more than the poor.  b. hurt the poor more than the rich.
   c. hurt everyone by the same amount.  d. not hurt anyone.

10. In an inflationary period, the tax system
    a. automatically reduces taxes on interest income  b. taxes nominal interest income.
    c. taxes only real interest.  d. allows "write-offs" of loan losses due to inflation.

11. Inflation that is accurately predicted
    a. redistributes income in a more arbitrary way than does inflation that is unexpected.
    b. need not redistribute income between borrowers and lenders.
    c. causes the nominal rate of interest to be lower than the real rate of interest.
    d. systematically erodes the real purchasing power of wages.
12. The equation for calculating real GDP is
a. real GDP = (nominal GDP/GDP deflator) x 100
b. real GDP = (GDP deflator/nominal GDP) x 100
c. real GDP = (constant-dollar GDP/GDP deflator) x 100
d. real GDP = (current-dollar GDP/constant-dollar GDP) x 100

Answer questions 13 and 14 based on the following information

<table>
<thead>
<tr>
<th>Price of Air</th>
<th>CPI in Jordens 1988 dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978:</td>
<td>60.00</td>
</tr>
<tr>
<td>1988:</td>
<td>70.00</td>
</tr>
<tr>
<td>1998:</td>
<td>90.00</td>
</tr>
</tbody>
</table>

13. In 1998, what was the real price of Air Jorden’s measured in terms of 1988 dollars
a. $75  b. $90  c. $108  d. none of the other answers

14. Which decade had the fastest growth in constant-dollar prices for jogging shoes?

15. A town with a population of 80,000 has 30,000 employed people and a labor force of 40,000. The unemployment rate is:
a. 25 percent.  b. 37.5 percent.  c. 50 percent.  d. none of the others

16. In the case of unanticipated disinflation (reduction of inflation rate), there is a redistribution of income from
a. the government to the taxpayers.  b. borrowers to lenders.
c. lenders to borrowers.  d. Since inflation is declining, there is no distribution.

17. A reduction in personal income taxes will leave consumers with
a. more government goods and services.  b. lower disposable income.
c. fewer government goods and services.  d. more income to spend.

18. The economic impact of the 1964 tax cut was
a. much less powerful in cutting aggregate demand than expected.
b. more powerful in cutting aggregate demand than expected.
c. just about what economists predicted it would be.
d. less powerful in cutting government spending than economists predicted.
e. not predicted, because economists had opposed it strongly.

19. Government can shift aggregate demand in a number of ways. In practice, the most common tool used to shift aggregate demand is
a. changes in the corporate income tax.  b. changes in the personal income tax.
c. changes in government spending on goods and services.  d. changes in transfer payments.

20. Savings is a leakage in the sense that
a. savings is lost to the economy and is unproductive.  b. the financial system is inefficient.
c. disposable income is less than actual income.  d. consumers spend less than they earn.

21. If real consumer expenditures are $425 billion and real disposable income is $600 billion:
a. investors are investing the difference  b. governments are taxing away the difference
c. consumers are saving the difference  d. investors have convinced governments to invest more

22. The nation's disposable income, DI, increases $500 billion, and, as a result, consumer expenditures increase $300 billion. Then, the MPC is:
a. 0.30.  b. 0.50.  c. 0.60.  d. 0.80.

23. If DI falls $10 billion and consumption falls $8 billion, the slope of the consumption function is:
a. -0.80  b. 0.80  c. -0.20  d. 0.20  e. 0.80 + 0.20 = 1.0
24. The marginal propensity to consume (MPC) is found using which formula?
   a. $MPC = \frac{\text{change in } I}{\text{change in GDP}}$
   b. $MPC = \frac{\text{change in } C}{\text{change in GDP}}$
   c. $MPC = \frac{\text{change in } C}{\text{change in NI}}$
   d. $MPC = \frac{\text{change in } C}{\text{change in DI}}$

25. If the MPC is .80, then a change in disposable income of $60 billion will lead to a change in consumption of:
   a. $30 billion.
   b. $48 billion.
   c. $54 billion.
   d. $60 billion.
   e. $75 billion.

26. When savings leak out of the circular flow,
   a. they flow into the financial system.
   b. total spending necessarily falls.
   c. they go immediately to other consumers.
   d. they increase the size of the flow.

27. Suppose that the consumption function is: $C = 50 + 0.5DI$. If $DI = 200$, consumption is
   a. 50
   b. 100
   c. 150
   d. 200

Answer questions 28 - 32 based on the circular flow diagram below. Suppose that GDP (Y) = 1000, G = 200, the government’s budget deficit is 100, taxes = 200, and consumption = 600. For simplicity, NX = 0 and

28. DI = ?
   a. 800
   b. 900
   c. 1000
   d. 1200

29. S = ?
   a. 200
   b. 300
   c. 400
   d. 600
   e. 800

30. I = ?
   a. 200
   b. 300
   c. 400
   d. 600
   e. 800

31. BuD = ?
   a. 100
   b. 300
   c. 400
   d. 600
   e. 800

32. The total supply of funds to the financial market is _____ and firms borrow _____ while the government borrows ______.
   a. 300, 200, 100
   b. 300, 100, 200
   c. 200, 100, 300
   d. 200, 100, 100