1. Real GDP is the product of:
   a. the total hours of work times the labor force.  
   b. The labor force times the output per hour.  
   c. the nation’s capital stock times the output per hour.  
   d. the total hours of work times the output per hour.

2. The growth rate of potential GDP is the sum of two other growth rates. These other growth rates are:
   a. population and resource base.  
   b. goods output and services output.  
   c. labor input and labor hours worked.  
   d. labor input and labor productivity.

3. The rise in energy prices during the 1970s is an appealing explanation of falling productivity because:
   a. productivity rates declined in all countries.  
   b. productivity rates declined in OPEC countries.  
   c. productivity rates increased in all energy using countries.  
   d. productivity rates varied across many countries.

4. Rising energy prices may not be the cause of falling rates of productivity growth because energy prices:
   a. fell in the 1980s and productivity increased.  
   b. rose in the 1990s and productivity increased.  
   c. fell in the 1990s and productivity did not increase.  
   d. fell in the 1990s and productivity decreased.

5. An explanation of declining U.S. productivity growth rates involves the change in workforce skills of the American labor force. The nature if this explanation is that:
   a. increased levels of education lead to more leisure time.  
   b. decreased numbers of Americans in college leads to lower labor force quality.  
   c. increasing labor force participation rates results in fewer Americans in school.  
   d. workforce skills are declining because of the decline in the quality of American education.

6. Discouraged workers are included in the:
   a. labor force category.  
   b. unemployed category.  
   c. not in the labor force category.  
   d. employed category.

7. The Soviet Union effectively eliminated frictional unemployment. This was possible because:
   a. no technological progress occurred.  
   b. workers were forbidden to change jobs.  
   c. wage rates were fixed.  
   d. prices were administratively controlled.

8. The use of automated teller machines (ATMs) has caused some bank tellers to lose their jobs. This is an example of:
   a. cyclical unemployment.  
   b. seasonal unemployment.  
   c. frictional unemployment.  
   d. structural unemployment.

9. The real wage rate is defined as the:
   a. wage rate divided by the interest rate.  
   b. wage rate divided by the money supply.  
   c. wage rate divided by nominal GDP.  
   d. wage rate divided by the price level.

10. Workers in country A receive an increase in wages of 10 percent at the same time the inflation rate in country A is 8 percent. Workers in country B receive an increase in wages of 3 percent and the inflation rate in country B is 1 percent. In which do workers get the largest increase?
    a. Country A because their real wages rise by 18 percent.  
    b. Country A because their real wages rise by 10 percent.  
    c. Country B because the inflation rate is lower.  
    d. Neither country because the increase in is the same.

11. Which of the following groups would most likely to benefit from inflation?
    a. borrowers  
    b. lenders  
    c. creditors  
    d. pensioners

12. If both borrowers and lenders anticipate the rate of inflation correctly, then:
    a. borrowers will lose real income.  
    b. lenders will lose real income.  
    c. both borrowers and lenders will lose real income.  
    d. neither borrowers nor lenders will lose real income.
13. Gladys agrees to lend Kay $1000 for one year at a nominal rate of interest of 5 percent. At the end of the year prices have actually risen by 7 percent.
   a. Gladys earns extra real income.  
   b. Kay loses extra real income.  
   c. Kay receives extra real income.  
   d. Neither party gains or loses if the loan is repaid.

14. Mary agrees to lend Rhoda $100 for six months and charges her interest of 2 percent. At the end of the six month period, prices have risen by 4 percent.
   a. Purchasing power has been redistributed to Mary.  
   b. No purchasing power has been redistributed.  
   c. Purchasing power has been redistributed to Rhoda.  
   d. Both Mary and Rhoda received extra purchasing power.

15. If inflation is expected by both borrowers and lenders, then we would expect
   a. real rates to be higher than nominal rates of interest.  
   b. real rates to be equal to nominal rates of interest.  
   c. real rates to be lower than nominal rates of interest.  
   d. nominal rates of interest to be less than expected inflation.

16. If the nominal interest rate was 12 percent and the inflation rate was 10 percent in 1980, while the nominal interest rate was 7 percent and the inflation rate was 2 percent in 1998, then
   a. real rates were higher in 1998.  
   b. real rates were higher in 1980.  
   c. credit was more expensive in 1980.  
   d. credit was cheaper in 1998 because the nominal rate was lower.

17. If you purchased shares of common stock in 1990 for $1,000 and sold them for $2,000 in 1998 you would be liable for taxes on
   a. $2000  
   b. $1000 less the rate of inflation.  
   c. $1000.  
   d. $2000 less the rate of inflation.

18. Sharon buys some common stock in 1990 for $10,000 and sells it in 1999 for $15,000. During the same period, prices have risen by 75 percent. The net result of Sharon’s stock purchases is she will
   a. pay no taxes because she earned negative real capital gains.  
   b. lose purchasing power and have to pay taxes anyway.  
   c. earn a real capital gain of $5,000 plus 75 percent.  
   d. earn a real capital gain of $15,000 minus 75 percent.

19. When governments rapidly increase the supply of money, the usual result is
   a. deflation.  
   b. low inflation.  
   c. hyperinflation.  
   d. increasing long-term investment.

20. Aggregate Demand is the total demand for
   a. all intermediate and final goods.  
   b. all monetary investments.  
   c. real and financial investments.  
   d. all final goods and services.

21. Melissa purchases shares in a stock mutual fund. Is this included in the aggregate demand component “Investment”?
   a. Yes, if it is a domestic mutual fund.  
   b. Yes, if the purchase is made out of current income.  
   c. No, unless the funds are deposited in a domestic financial institution.  
   d. No, it would never be included.

22. Aggregate demand is defined as the total spending of
   a. consumers, business firms, government agencies, and foreigners on final goods and services produced in the United States.  
   b. consumers, business firms, government agencies, and foreigners in the United States.  
   c. consumers, businesses, government agencies, and foreigners  
   d. consumers, businesses, and government agencies on final output.

23. On a graph with consumption on the vertical axis and disposable income on the horizontal axis,
   a. the slope of the line is less than 1.  
   b. the slope of the line is equal to 1.  
   c. the slope of the line is greater than 1.  
   d. the slope of the line is undefined.

24. If personal taxes are reduced by $10 billion, we can expect that consumers will
   a. increase spending by $10 billion.  
   b. increase spending by more than $10 billion.  
   c. increase spending by less than $10 billion.  
   d. increase saving by $10 billion.

25. If the nation’s disposable income increases by $200 billion and, as a result, consumer spending increases by $160 billion. Therefore, the MPC equals
   a. 0.16.  
   b. 0.20.  
   c. 0.60.  
   d. 0.80.  
   e. 0.96.
26. The marginal propensity to consume (MPC) is calculated by which formula?
   a. MPC = change in DI divided by change in C  
   b. MPC = change in GDP divided by change in DI  
   c. MPC = change in C divided by change in DI  
   d. MPC = change in C divided by change in GDP

27. In 1963, government economists assumed that the MPC for the United States was approximately .90. If taxes were cut by $9 billion, then consumer expenditures would be expected to
   a. decrease by $9 billion.  
   b. increase by $9 billion.  
   c. decrease by $8 billion.  
   d. increase by $8 billion.

28. If the MPC increases in value, what will happen to the slope of the consumption function?
   a. It will decrease and become flatter.  
   b. It will decrease and become steeper.  
   c. It will increase and become steeper.  
   d. It will increase and become flatter.

29. An increase in disposable income will
   a. lead to an upward movement along the consumption function. 
   b. shift the consumption function upward. 
   c. lead to a downward movement along the consumption function. 
   d. shift the consumption function downward

30. Which of the following would be most likely to raise the consumption function upward?
   a. a stock market crash  
   b. a price level increase 
   c. increased corporate layoffs 
   d. a stock market boom

31. Why does an increase in the price level tend to cause the consumption function to shift downward?
   a. An increase in the price level decreases disposable income.  
   b. An increase in the price level increases the demand for fixed money assets.  
   c. An increase in the price level decreases the value of fixed money assets.  
   d. An increase in the price level decreases saving and increases debt.

32. If consumers’ expectations about future income is very optimistic, then we should expect
   a. the consumption function to shift downward.  
   b. consumers to move up along the consumption function.  
   c. the consumption function to shift upward.  
   d. consumers to move down along the consumption function.

33. The main reason that the 1964 tax change did not have a large effect on GDP is that it was a
   a. temporary surcharge rather than a permanent surcharge.  
   b. permanent surcharge rather than a temporary surcharge.  
   c. it was a temporary tax cut rather than a permanent tax cut.  
   d. it was a permanent tax cut rather than a temporary tax cut.

Answer questions 34 - 36 based on the following consumption function:

<table>
<thead>
<tr>
<th>DI</th>
<th>100</th>
<th>200</th>
<th>300</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cons</td>
<td>150</td>
<td>200</td>
<td>250</td>
</tr>
</tbody>
</table>

34. The MPC is:
   a. 0.15  
   b. 0.5  
   c. 0.9  
   d. 1.5

35. If DI = 100, saving equals:
   a. -50  
   b. 0  
   c. 50  
   d. 150

36. If DI = 200, saving equals:
   a. -50  
   b. 0  
   c. 50  
   d. 150

37. Which of the following is the “best” representation of a consumption?
   a. C = 50 + 0.5*DI  
   b. C = -50 + 0.5*DI  
   c. C = 50 + 0.5*Y  
   d. C = -50 + 0.5*Y

38. Which of the following is the “best” representation of a consumption?
   a. C = 10 + 1.2*DI  
   b. C = 10 - 1.2*DI  
   c. C = 10 - 0.8*DI  
   d. C = 10 + 0.8*DI

39. Which of the following is true about the growth rate of real U.S. GDP during the second quarter of 1999?
   a. The preliminary figure was revised downward from 1.8% to 1.6%.  
   b. It was the highest in 4 years.  
   c. The downward revision caused the stock market to fall.  
   d. It was 0.2% (1.8% - 1.6%).
Answer questions 40 - 43 based on the figure above.

40. Which of the following is correct? If DI = 0a:

41. Which of the following is NOT correct?
   a. af = df  b. fg = gh  c. If DI = 0b, C = bi.  d. If DI = 0b, Saving = gh.

42. Which if the following is NOT correct?
   a. If DI = 0a, Saving = 0.  b. If DI = 0b, Saving = hg  
   c. If DI = 0b, C = bh.  d. Distance 0b = eh.

43. The MPC is:
   a. 0a/0b.  b. ab/de  c. fg/hi  d. fg/ig

Answer questions 44 - 47 based on the following information. In a circular flow diagram, suppose that: Y = 1000, G = 200, the budget deficit (BuD) is 100, X - IM = zero, and I = 150.

44. Net taxes are:
   a. -100  b. -50  c. 0  d. 50  e. 100

45. DI equals:
   a. 900  b. 1000  c. 1100  d. 1200  e. none of the others is correct.

46. S equals:
   a. -100  b. 100  c. 200  d. 300  e. none of the others is correct.

47. C equals:
   a. 550  b. 650  c. 750  d. 900  e. 1000