ECO 5003 Exam 1, Sample Mult. Choice Questions

Multiple Choice
*Identify the letter of the choice that best completes the statement or answers the question.*

1. In the 1960s, government policy makers thought that they could
   a. stabilize the economy by letting the market system solve all problems
   b. reduce unemployment by running federal budget surpluses
   c. eliminate government's role in stabilization policy
   d. use changes in the money supply to virtually eliminate business cycles
   e. use taxation and government spending to fine-tune the economy

2. Labor productivity measures
   a. input per unit of labor
   b. output per unit of labor
   c. average input per unit of labor
   d. units of capital per unit of labor
   e. output per unit of capital

3. The unemployment rate is the
   a. percentage of people in the economy who do not hold jobs
   b. percentage of the labor force that does not have a job
   c. number of people in the economy who have given up looking for employment
   d. number of people in the labor force without jobs
   e. ratio of unemployed to employed high school graduates in the economy

4. Which of the following would lead to the most inflation?
   a. Both aggregate demand and aggregate supply increase.
   b. Both aggregate demand and aggregate supply decrease.
   c. Aggregate demand increases and aggregate supply decreases.
   d. Aggregate demand increases and aggregate supply increases.
   e. Aggregate supply decreases.

5. Tony lent Dave $1,000 for one year with the understanding that Dave would repay $1,070. If the actual inflation rate was 7 percent, what was the real rate of interest Tony received?
   a. 14 percent
   b. 7 percent
   c. 4 percent
   d. 0 percent
   e. -7 percent

6. Gross Domestic Product measures the
   a. market value of all final goods and services produced by a nation's citizens, residents and firms of a nation regardless of the location of production
   b. market value of all final goods and services produced by resources located within a nation regardless of who owns those resources
   c. market value of all goods and services produced by resources located within a nation regardless of who owns those resources
   d. market values of all goods and services produced by a nation's citizens and firms regardless of the location of production
   e. market value of all goods and services produced within a nation by resources owned by residents and firms of that nation
7. Which of the following would not be an expenditure on final goods and services?
   a. a farmer's purchase of a pound of hamburger
   b. a medical clinic's purchase of flu vaccine
   c. a factory's purchase of a spot welding machine
   d. the purchase of a cup of coffee at a restaurant
   e. a college student's purchase of a brand new textbook for a medieval history class

8. If nominal GDP falls by 10 percent, this means that
   a. real output has fallen by 10 percent
   b. the price level has fallen by 10 percent
   c. consumer spending must have fallen by 10 percent
   d. it is possible that all of the decrease was caused by an decrease in the price level
   e. net exports decreased by 10 percent

9. If we knew that nominal GDP was currently $5.4 trillion, and that GDP in dollars of 1997 purchasing power
   was $3.6 trillion, what would we know about the GDP price index?
   a. It would be .667.
   b. It would be 150.
   c. We would know nothing until we had current information on the price level.
   d. We would know only that a dollar buys more currently than it bought in 1997.
   e. It indicates that substantial deflation has occurred since 1997.

10. Which of the following would not shift the consumption function?
    a. a change in household wealth
    b. a change in the price level
    c. a change in household disposable income
    d. a change in the level of unemployment
    e. a change in the rate of interest

11. Which of the following is true of the autonomous investment and saving functions?
    a. The autonomous investment function has a positive slope; the saving function is a horizontal line.
    b. The autonomous investment function has a negative slope; the saving function has a positive slope.
    c. The autonomous investment function is a horizontal line; the saving function has a positive slope.
    d. Both the autonomous investment function and the saving function slope upward.
    e. Both the autonomous investment function and the saving function slope downward.

12. As the price level in the United States increases, other things constant, U.S. products become
    a. more expensive abroad, which decreases U.S. exports
    b. less expensive abroad, which increases U.S. exports
    c. more expensive abroad, which has no effect on U.S. exports, since exports are assumed to be constant
    d. less expensive abroad, which has no effect on U.S. exports, since exports are assumed to be constant
    e. more expensive abroad, which increases U.S. exports
13. In the income-expenditure framework, if planned aggregate expenditures are less than real GDP,
   a. the price level will fall
   b. consumption must fall
   c. inventories will increase
   d. inventories will decrease
   e. consumption will decrease

14. The equilibrium quantity of aggregate output occurs when
   a. the economy reaches the full employment of labor
   b. planned aggregate expenditure equals income generated from production
   c. actual exports equal planned imports
   d. inventories of goods and services are increasing
   e. inventories of goods and services are decreasing

15. Which of the following is assumed constant along the aggregate expenditure line?
   a. the price level
   b. consumption
   c. unintended inventory adjustment
   d. actual investment
   e. real GDP

16. The smaller the marginal propensity to save, other things constant,
   a. the smaller the marginal propensity to consume
   b. the smaller the multiplier
   c. the flatter the consumption function
   d. the flatter the saving function
   e. the steeper the saving function

17. Which of the following would cause a rightward shift of the aggregate demand curve?
   a. an increase in planned investment
   b. a drop in the price level
   c. a rise in the price level
   d. a decrease in autonomous consumption
   e. anything that causes an upward shift in the saving function

18. All of the following are variables that can be manipulated to affect fiscal policy except
   a. personal income taxes
   b. government expenditures on goods and services
   c. government expenditures on unemployment benefits
   d. the interest rate
   e. corporate income taxes

19. If imports increase as disposable income increases, economic growth will _________ net exports and
   contribute to a trade _________.
   a. increase; deficit
   b. increase; surplus
   c. decrease; deficit
   d. decrease; surplus
   e. not affect; balance
ECO 5003 Exam 1, Sample T/F Questions

Multiple Choice
Identify the letter of the choice that best completes the statement or answers the question.

A 1. Gross Domestic Product measures the value of final goods and services produced within a nation's borders.
   a. True
   b. False

B 2. Since the Great Depression, business fluctuations have become more severe and longer in duration.
   a. True
   b. False

B 3. Labor productivity tends to fall as the capital-labor ratio rises.
   a. True
   b. False

B 4. Improvements in technology shift the per-worker production function downward.
   a. True
   b. False

A 5. Investment spending is a flow variable; inventories are a stock variable.
   a. True
   b. False

B 6. A problem inherent in using value added in measuring GDP is that the method does not avoid double counting.
   a. True
   b. False

B 7. An increase in the interest rate would shift the consumption function upward.
   a. True
   b. False

B 8. The marginal propensity to consume is best defined as the fraction of a change in income that is saved.
   a. True
   b. False

A 9. Movement along the aggregate expenditure curve is caused by a change in the level of income.
   a. True
   b. False

A 10. If output exceeds planned aggregate spending, the result is unintended inventory increases.
    a. True
    b. False

A 11. The larger the MPS, the smaller the multiplier effect.
    a. True
    b. False
Problem A.

Consider the following table of income and expenditure data. (Data in billions of dollars, and I, G, net exports, and NT assumed autonomous.)

<table>
<thead>
<tr>
<th>GDP</th>
<th>C</th>
<th>DI</th>
<th>S</th>
<th>NT</th>
<th>AE</th>
<th>I + G</th>
<th>X - M</th>
</tr>
</thead>
<tbody>
<tr>
<td>5000</td>
<td>5250</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>800</td>
</tr>
<tr>
<td>6000</td>
<td>6000</td>
<td>5600</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8000</td>
<td>7500</td>
<td>7600</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-300</td>
</tr>
<tr>
<td>9000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Fill in the missing numbers.
2. What is the equilibrium level of GDP? Why?
3. What are: The MPC? The MPS? The Multiplier? The MPM?
4. By how much would an autonomous increase in investment of 120 (billion) change the equilibrium level of GDP?

Answers.

1. 

<table>
<thead>
<tr>
<th>GDP</th>
<th>C</th>
<th>DI</th>
<th>S</th>
<th>NT</th>
<th>AE</th>
<th>I + G</th>
<th>X - M</th>
</tr>
</thead>
<tbody>
<tr>
<td>5000</td>
<td>5250</td>
<td>4600</td>
<td>-650</td>
<td>400</td>
<td>5750</td>
<td>800</td>
<td>-300</td>
</tr>
<tr>
<td>6000</td>
<td>6000</td>
<td>5600</td>
<td>-400</td>
<td>400</td>
<td>6500</td>
<td>800</td>
<td>-300</td>
</tr>
<tr>
<td>7000</td>
<td>6750</td>
<td>6600</td>
<td>-150</td>
<td>400</td>
<td>7250</td>
<td>800</td>
<td>-300</td>
</tr>
<tr>
<td>8000</td>
<td>7500</td>
<td>7600</td>
<td>100</td>
<td>400</td>
<td>8000</td>
<td>800</td>
<td>-300</td>
</tr>
<tr>
<td>9000</td>
<td>8250</td>
<td>8600</td>
<td>350</td>
<td>400</td>
<td>8750</td>
<td>800</td>
<td>-300</td>
</tr>
<tr>
<td>10000</td>
<td>9000</td>
<td>9600</td>
<td>600</td>
<td>400</td>
<td>9500</td>
<td>800</td>
<td>-300</td>
</tr>
</tbody>
</table>

2. 8000. Below that level, AE > GDP, there is unintended disinvestment in inventories, and producers increase output. Above that level, AE < GDP, there is unintended investment in inventories, and producers decrease output.

3. MPC = .75, MPS = .25, k = 4, MPM = 0.

4. 480 billion.
Problem B.
Here is a consumption function:

1. Add to the diagram an aggregate expenditure line (function) that passes through point B and takes into account the other principal sources of expenditure on GDP. (Assume this country does trade with the rest of the world and that imports and exports, as well as the other principal expenditure items, and taxes, are autonomous.) Label your aggregate expenditure function appropriately as the sum of its components.

2. In the diagram what is:
   a. the MPC? .6
   b. the MPS? .4
   c. the simple expenditures multiplier? 2.5
   d. the MPM? 0

3. Given your aggregate expenditure function, how much is unintended inventory investment if the economy is at:
   a. 8,000 b.? -400
   b. 9,000 b.? 0
Problem C. AD and AS analysis.

1. In an AD and AS diagram, what concept is represented on the vertical axis?

2. What are the reasons the AD curve is expected to slope downward to the right?

3. What are the reasons the AS curve is expected to slope upward to the right.

4. Use the AD and AS diagram below to explain the Great Depression of the 1930s. (Label the vertical axis appropriately for the concept measured there.) Provide a brief explanation for what you draw.