Solve the following multiple-choice problems and mark the answers on the scantron provided. Make sure to include your name and section number on the scantron (Each problem is worth 2 points).

1. Suppose that in 2002 the Nominal GDP was $9.0 trillion and the GDP deflator was 1.20. What approximately was the GDP deflator in 2003 if Nominal GDP in 2003 was $10.0 trillion and real GDP increased by 10% between 2002 and 2003?
   (a) 1.11
   (b) 1.21
   (c) 1.32
   (d) 1.35

2. Based on figure 1, in which year was the economy in an expansion and the unemployment rate was above the natural rate of unemployment?
   (a) 1991
   (b) 1993
   (c) 1995
   (d) 1997

3. Which of the following will be counted as part of GDP for a given year?
   (a) Nuts and bolts purchased by Black & Decker to build new lawnmower
   (b) An American car produced in Canada and sold in the United States
   (c) Books that Amazon.com does not sell by the end of the year
   (d) A meal that a grandmother cooks her grandchildren

4. Which of these is a reason why real GDP is not a good measure of social welfare?
   (a) Real GDP counts services even though they are not tangible goods
   (b) Real GDP does not account for inflation and deflation
   (c) Real GDP is not measured every month
   (d) Real GDP ignores changes to health
5. All of the following are examples of Automatic Stabilizers EXCEPT:
(a) Income tax (assuming that each person pays a certain percentage of their income)
(b) Government expenditure on national defense
(c) Welfare payments for poor families
(d) Unemployment Compensation

6. Complete the following sentence. If employment is above full employment in the short then: (1) Interest rates are likely to ________ and (2) Wages are likely to ________, thus moving the economy towards long run equilibrium.
(a) 1. Rise & 2. Rise
(b) 1. Rise & 2. Fall
(c) 1. Fall & 2. Rise
(d) 1. Fall & 2. Fall

7. If employers and employee anticipate that the inflation rate will be 5% in 2006 (higher than usual) then what will happen to nominal wages and prices?
(a) Firms are more likely to raise nominal wages causing even more inflation
(b) Firms are more likely to raise nominal wages causing less inflation
(c) Firms are more likely to lower nominal wages causing more inflation
(d) Firms are more likely to lower nominal wages causing less inflation

8. Which of the following events will raise employment and reduce the price level?
(a) Strong economic growth in Europe and Asia
(b) An increase in consumer confidence
(c) A fall in the cost of raw material
(d) An increase in minimum wage

9. Which of the following events can cause a demand-pulled inflation?
(a) An increase in the minimum wage rate
(b) A rise in corporate and income taxes
(c) A depreciation in the local currency
(d) An increase in the interest rates

10. An unanticipated demand-pulled inflation would normally lead to all the following problems EXCEPT:
(a) Too much or too little lending and borrowing
(b) Distortions in the labor market
(c) A drop in firms’ profit
(d) Menu costs

11. If unemployment is below the natural rate of unemployment, which one of these statements MUST be true?
(a) Employment must be below the full level of employment
(b) There is an inflationary gap in the economy
(c) Cyclical unemployment must be positive
(d) The economy must be in an expansion
12. Which of the following events is most likely to increase the price level in the US?
(a) An appreciation in the local currency
(b) A fall in the cost of fossil fuels
(c) An increase in interest rates
(d) A decrease in corporate taxes

Use the following information about the country of Economia to answer problems 13 and 14:
Consumption = $180 billion, Gross Investment = $90 b, Government Spending = $60 b, Net Exports = $20 b, Taxes = $40 billion and Imports = $40.

13. What does Economia’s GDP equal?
(a) $290 billion
(b) $310 billion
(c) $330 billion
(d) $350 billion

14. If 20% of Gross Domestic Product is spent replacing capital that has worn down or became obsolete, how much Net Investment is there in Economia?
(a) $20 billion
(b) $25 billion
(c) $28 billion
(d) $35 billion

Use this information about the country of Workolia to answer problems 15 & 16:
Population = 200 million, Eligible Population = 150 m, Labor Force Participation Rate = 80%, Number of Unemployed = 12 m and the Natural Rate of Unemployment = 5%.

15. What is the employment to population ratio in Workolia?
(a) 57.0%
(b) 62.5%
(c) 67.5%
(d) 72.0%

16. How much cyclical unemployment is there in Workolia?
(a) 2.5%
(b) 5.0%
(c) 7.5%
(d) 10.0%

17. Sarah decides to leave her job as a Wall Street Broker because the job is just too stressful. If Sarah is looking for another job then Sarah is:
(a) Frictionally unemployed
(b) Structurally unemployed
(c) Cyclically unemployed
(d) Medically unemployed
For each one of the scenarios in problems 18 through 20, state what will happen to the price level and real GDP in the economy.

18. Corporate taxes fall?
   (a) The price level and real GDP will both increase
   (b) The price level and real GDP will both decrease
   (c) The price level will increase but real GDP will decrease
   (d) The price level will decrease but real GDP will increase

19. Minimum wage is increased throughout the nation?
   (a) The price level and real GDP will both increase
   (b) The price level and real GDP will both decrease
   (c) The price level will increase but real GDP will decrease
   (d) The price level will decrease but real GDP will increase

20. The price of gasoline goes up and at the same time consumer confidence falls?
   (a) The price level will increases but real GDP can increase, decrease or remain the same
   (b) The price level will decrease but real GDP can increase, decrease or remain the same
   (c) Real GDP will increases but the price level can increase, decrease or remain the same
   (d) Real GDP will decrease but the price level can increase, decrease or remain the same