Practice Exam 2

1. When is Dr. Wachsman holding his office hours this semester?
   (a) Tuesday 8:30-9:45 & Thursday 8:30-9:45
   (b) Tuesday 8:30-9:45 & Wednesday 3:00-4:15
   (c) Monday 3:00-4:15 & Thursday 8:30-9:45
   (d) Wednesday 3:00-4:15 & Thursday 8:30-9:45

2. Which of the following will be counted as part of the U.S. GDP in a given year?
   (a) A car produced by Ford (an American company) in Mexico and sold in the U.S.
   (b) Books that Barnes and Noble displays but does not sell by the end of the year
   (c) Computer chips that Pentium sells Gateway in order to produce desktops
   (d) Lemonade that little Lisa sells in front of her home

3. If real GDP is above potential GDP in the short-run, what will happen in the long run if the government does not intervene?
   (a) The high level of production will reduce production cost and increase the SAS
   (b) Positive business expectations will cause the AD to increase indefinitely
   (c) The LAS (potential GDP) will increase because of increased capacity
   (d) Workers will bid up wages, decreasing the SAS towards the LAS

4. Which of the following is a reason why real GDP per capita is not a good measure of social welfare?
   (a) Real GDP per capita does not count goods that are produced but not sold
   (b) Real GDP per capita does not account for the size of the population
   (c) Real GDP per capita does not account for air pollution
   (d) Real GDP per capita double counts intermediate goods

5. If in 1990 real GDP was $4 trillion and the GDP deflator was 1.25 and then nominal GDP increased by 15% between 1990 and 1991. Assuming that real GDP stayed the same between 1990 and 1991, what approximately was the GDP deflator in 1991?
   (a) 1.35
   (b) 1.38
   (c) 1.40
   (d) 1.44
6. Which of the following events is likely to increase unemployment and drive the price level down?
(a) An increase in interest rates
(b) An increase in minimum wage
(c) An increase in consumer confidence
(d) An improvement in the world economy

Use figure 2-1 (below) to answer problems 7 and 8.

7. Based on figure 2-1, which of the following years had a recession and a relatively low rate of unemployment?
(a) 1991
(b) 1993
(c) 1994
(d) 1996

8. Which of the following statements is likely to be true based on figure 2-1?
(a) Real GDP was below potential GDP in 1995
(b) The economy was in a recession in 1993
(c) The economy reached a peak in 1992
(d) Unemployment was falling in 1994

9. Which of the following events could cause a demand-pulled inflation?
(a) A decrease in income tax
(b) A decrease in government spending
(c) An appreciation in the local currency
(d) An increase in the price of petroleum

10. Which of the following is an example of a menu cost?
(a) A shipping company has to pay more money for fuel after the price of fuel increases
(b) Shoppers must rush to the store to buy goods before their prices rise again
(c) A department store prints new catalogs with higher prices
(d) A factory raises the wages of its workers after they strike
Use the following information to answer problems 11 and 12.
You are given the following information about Zugala’s economy: Gross Domestic Product = 270 billion. Consumption = $180 billion, Gross Investment = $70b, Exports = $40b, Net Investment = $20 billion, Imports = $60b.

11. How much government spending is there in Zugala?
(a) $20 billion
(b) $40 billion
(c) $60 billion
(d) $70 billion

12. What percent of Gross Investment is used in order to cover depreciation?
(a) About 50.0%
(b) About 55.5%
(c) About 62.8%
(d) About 71.4%

13. Which of the following is NOT a problem that an unanticipated demand-pulled inflation (an inflation that is higher than anticipated) tends to create?
(a) Distortions in the market for loanable funds because the real interest rate changes
(b) A sharp drop in employment
(c) Menu costs for businesses
(d) Changes in real wages

14. Which one of these people would be counted as part of the Eligible Population but NOT a part of the Labor Force?
(a) Rachel is 75 years old. She retired when she was 65 and is in good health
(b) Elisa is 22 years old. She attends school and works part-time as a waitress
(c) Mike is 17 years old. He works full-time time at his parents’ shop
(d) Sam is 35 years old. He became severely handicapped after a car accident and stopped working

15. If the unemployment rate is below the natural rate of unemployment, which of the following statements is true?
(a) Employment is above full employment
(b) Cyclical unemployment is positive
(c) The unemployment rate is negative
(d) All of the above are true

16. Michelle leaves her job when she and her husband move from Baltimore to San Diego. If Michelle is looking for a new job in San Diego then Michelle is:
(a) Geographically unemployed
(b) Structurally unemployed
(c) Frictionally unemployed
(d) Cyclically unemployed
Use the information below about the country of Workaholia to answer problems 17 through 19. Total Population = 160 million. Labor Force Participation Rate = 68%. Number of Employed = 76 million, Number of Unemployed = 6 million.

17. What approximately is the unemployment rate in Workaholia?
   (a) 5.27%
   (b) 7.31%
   (c) 7.89%
   (d) 8.29%

18. Approximately how many people in Workaholia are not eligible to work?
   (a) 56.4 million
   (b) 51.2 million
   (c) 48.2 million
   (d) 39.4 million

19. What approximately does the employment to population ratio equal?
   (a) 63.0%
   (b) 66.4%
   (c) 68.0%
   (d) 69.9%

20. If the unemployment rate is below the natural rate of unemployment, then the difference between real GDP and potential GDP is called:
   (a) A recessionary gap
   (b) An inflationary gap
   (c) A concretionary gap
   (d) An expansionary gap

21. Which of the following events is most likely to increase employment in the economy?
   (a) A decrease in the price of fossil fuels
   (b) An appreciation of the local currency
   (c) A decrease in consumer confidence
   (d) An increase in taxes

22. All of the following are examples of Automatic Stabilizers EXCEPT:
   (a) Welfare payments for poor families
   (b) Unemployment compensation
   (c) A progressive tax
   (d) Social security
23. What would happen to the price level and real GDP if the currency appreciated?
(a) The price level and real GDP would both increase
(b) The price level and real GDP would both decrease
(c) The price level would increase but real GDP would decrease
(d) The price level would decrease but real GDP would increase

24. What would happen to real GDP and the price level if wages increased and, at the same time, consumer confidence rose?
(a) The price level would increase, but real GDP can increase decrease or stay the same
(b) The price level would decrease, but real GDP can increase decrease or stay the same
(c) Real GDP would increase, but the price level can increase decrease or stay the same
(d) Real GDP would decrease, but the price level can increase decrease or stay the same

25. Which of these actions can the government take in order to slow down a demand-pulled inflation?
(a) Increase government spending
(b) Depreciate the currency
(c) Raise the interest rates
(d) Lower taxes