Practice Final

1. Which of the following topics is most likely to be included in Macroeconomics?
   (a) How consumers choose between different goods
   (b) How to design the ideal investment portfolio
   (c) How firms choose between different inputs
   (d) Government monetary policy

2. Mike is 70 and is retired. He decides to start working as a photographer when he realizes that his income is insufficient. What is Mike’s opportunity cost of becoming a photographer?
   (a) The cost of the photography equipment and of displaying his pictures
   (b) He has no opportunity cost because he was not earning any money
   (c) The income that he would earn as a photographer
   (d) The value of his leisure as a retired individual

3. Which of the following events will shift the Production Possibilities Frontier for the United States outwards?
   (a) 5 million farmers stop farming and move to the city to work in the service industry
   (b) A million acers of forests are converted into corn fields
   (c) 20 million new workers legally immigrate to the U.S.
   (d) The United States sells Alaska back to Russia

   For each of the events in problems 4 through 6, state what would happen to the equilibrium price and equilibrium quantity of milk?

4. A drought destroys half of the cereal supply?
   (a) Price and quantity will both increase
   (b) Price and quantity will both decrease
   (c) Price will increase, but quantity will decrease
   (d) Price will decrease, but quantity will increase

5. A disease (that does not harm humans) kills half of the milk-producing cows?
   (a) Price and quantity will both increase
   (b) Price and quantity will both decrease
   (c) Price will increase, but quantity will decrease
   (d) Price will decrease, but quantity will increase

6. The number milk producers increases and at the same time a new study shows that milk can help prevent cancer?
   (a) Price would increase but quantity can increase, decrease or stay the same
   (b) Price would decrease but quantity can increase, decrease or stay the same
   (c) Quantity would increase but price can increase, decrease or stay the same
(d) Quantity would decrease but price can increase, decrease or stay the same

7. Which of the following events is likely to cause the dollar to depreciate?
(a) If people expected a strong economic growth in the United States
(b) If more international tourists come to visit the United States
(c) If investors expected the dollar to appreciate
(d) If the interest rates in the United States fell

8. Which of the following resources will fall under the category of Land?
(a) Fish in the ocean
(b) A chemical fertilizer
(c) A wooden chair
(d) A truck

9. President Bush declares that the unemployment rate in the United States is lower than in Europe. What type of statement is Bush making?
(a) A marginal analysis statement
(b) A positive statement
(c) A comparative statement
(d) A normative statement

10. Which of the following would be counted as part of the United States’ GDP?
(a) Steel purchased by Constructions Inc. in order to build a skyscraper in L.A.
(b) A car produced by Ford Motor in Canada and sold in the United States
(c) Meals that Lisa, a homemaker, prepares for her grandchildren
(d) A surgery performed by a doctor in a New York hospital

11. Which of the following events is likely to decrease unemployment and drive the price level in the economy down?
(a) A decrease in the price of fossil fuels
(b) An increase in minimum wage
(c) A decrease in the interest rate
(d) An increase in income tax

12. If real GDP in 1995 was $8 trillion and the nominal GDP was $5 trillion, what was the GDP deflator for 1995?
(a) .375
(b) .625
(c) 1.60
(d) 1.67
13. **Which one of these statements is NOT correct?**
(a) It is possible to produce 3 laptops and 12 cell phones in Technolia
(b) The marginal cost of laptops at point D is 5 cell phones
(c) Point C is more efficient than point B
(d) Point B is feasible but not efficient

14. **What is the marginal cost of producing another cell phone at point D?**
(a) 1/15 laptops
(b) 1/5 laptops
(c) 1/4 laptops
(d) 1/2 laptops

15. **Which of the following events can cause a cost-pushed inflation?**
(a) A large increase in government spending
(b) A decrease in the price of fossil fuels
(c) A large increase in minimum wage
(d) An increase in business confidence

16. **Which one of these people is counted as part of the labor force?**
(a) Richard is 23 years old. He is currently working in prison because he stole a car
(b) Rachel retired when she was 55 because she became severely handicapped
(c) Thomas is 39 years old. He wants to work but gave up looking for a job
(d) Lisa is 17. She goes to high school and works part-time as a waitress
17. **Which one of these statements is most likely to be true about 1994?**
(a) The unemployment rate was relatively low
(b) Real GDP was below potential GDP
(c) The economy was in a recession
(d) Employment was very low

18. **Which of the following events will increase the supply of dollars in the Foreign Exchange Market?**
(a) If fewer American tourists traveled abroad because they were afraid of terrorism
(b) If the American government increases the interest rate on government bonds
(c) If economists expected a slow economic growth in Europe
(d) If Americans expected the Euro to rapidly appreciate

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You are given the following information about the country of Economia, use it to solve problems 19 & 20: Consumption = $220 billion, Net Investment = $10b, Exports = $30b, Government Expenditure = $50b, Imports = $60b, Depreciation = $50b.

19. **What percent of Gross Investment is used to purchase new capital?**
(a) 16.7%
(b) 20.0%
(c) 25.0%
(d) 33.3%

20. **What percent of GDP does Consumption equal?**
(a) 88.8%
(b) 73.3%
(c) 66.7%
(d) 62.9%

21. **Keynesians believe that during rapid expansions:**
(a) The government should appreciate the currency in order to decrease net exports
(b) The government should raise the interest rates
(c) The government should lower its spending
(d) The government should decrease taxes
Use the following information about the country of Workaholia to answer problem 22.
Total Population = 220 million, Eligible Population 170 million, Labor Force Participation Rate = 50%, Number of Employed = 78 million.

22. What is the unemployment rate in Workaholia?
(a) 8.24%
(b) 5.32%
(c) 4.10%
(d) 2.50%

23. Which of the following effects is a tariff on DVD players likely to have?
(a) It will decrease the price that consumers pay for DVD players by reducing demand
(b) It will increase the domestic production of DVD players
(c) It will increase demand for large screen TVs
(d) It will decrease government revenue

24. Which of these events is most likely to increase the price level in the economy?
(a) An appreciation in the local currency
(b) A fall in the price of fossil fuels
(c) A fall in consumer confidence
(d) A decrease in income tax

25. Sarah increases her consumption by $47,000 when her income increases by $50,000. What is Sarah’s Marginal Propensity to Save?
(a) 3%
(b) 5%
(c) 6%
(d) 8%

26. Mike is fired from his job because the economy is in a recession and his company has to reduce the number of workers in order to stay in business. If Mike is looking for a new job that he is:
(a) Frictionally unemployed
(b) Cyclically unemployed
(c) Structurally unemployed
(d) Marginally unemployed

27. Which of these actions can the government take in order to slow down a demand-pulled inflation?
(a) Decrease the supply of money and raise the interest rates
(b) Decrease consumer confidence
(c) Increase government spending
(d) Lower taxes
28. Which one of these assets is the least liquid one?
(a) A money market mutual fund
(b) A checking account
(c) A saving account
(d) A money order

29. In the Keynesian model with no exports, if the marginal propensity to consume is .75 and government spending decreases by $50 billion, by how much will equilibrium output decrease?
(a) $67 billion
(b) $75 billion
(c) $200 billion
(d) $250 billion

30. Rachel’s disposable income is $80,000, her Marginal Propensity to Save is .10 and her autonomous consumption is $6,000, how much does Rachel save?
(a) $2,000
(b) $3,000
(c) $5,000
(d) $8,000

31. Which of the following is a function of the Fed?
(a) Determine what interest rate banks must give depositors
(b) Regulate saving and loans institutions
(c) Issue new government bonds
(d) Print money

32. Rachel takes money out of her saving account and uses it to buy a corporate bond. What would happen to M1 and M2 as a result?
(a) M2 will decrease, but M1 will remain the same
(b) M1 will decrease, but M2 will remain the same
(c) M2 will decrease, but M1 will increase
(d) M1 and M2 will both decrease

33. Allison saves money in order to buy a boat. Allison is using money as:
(a) Allison is not using money because she is not purchasing anything
(b) Medium of exchange
(c) Unit of account
(d) Store of value

34. Which one of these policies is the Fed most likely to follow if unemployment is very high?
(a) Increase the required reserve ratio
(b) Sell government bonds
(c) Decrease the Federal Funds Rate
(d) Print more money
35. What does a depository institution that invests in various assets and offers depositors a return based on how well the assets perform called?
(a) The Federal Reserve Board
(b) A Saving & Loan Institution
(c) A Commercial Bank
(d) A Credit Union

36. Which group of economists would argue that government intervention is more likely to harm the economy than to help it?
(a) Institutional economists
(b) Keynesian economists
(c) Classical economists
(d) Monetarist economists

37. If the Price Level = 100, Velocity of Money = 10 and the supply of money = $40 billion, what does real GDP equal?
(a) $4 billion
(b) $8 billion
(c) $20 billion
(d) $25 billion

38. Which of the following country should be labeled a highly developed economy?
(a) Australia
(b) Brazil
(c) Kenya
(d) China

39. If Poland’s Gross Domestic Product doubles every 20 years, approximately at what annual rate does its economy grow?
(a) 2.0%  (b) 2.5%
(c) 3.0%  (d) 3.5%

40. What does the time it takes politicians to argue over what policy to adopt called?
(a) A recognition lag
(b) An impact lag
(c) A standoff lag
(d) A legislative lag

41. Which of the following governments is most likely to promote growth?
(a) A small government that supports free trade and private property
(b) A dictatorship that decides what each company should produce
(c) A small, corrupt government that supports barriers to trade
(d) A large government that supports high taxes and welfare
42. Why is a good judiciary system so important for economic growth?
(a) A good judiciary system increases community pride
(b) A good judiciary system reduces conflicts that harm productivity
(c) A good judiciary system enforces contracts and protects property
(d) A good judiciary system helps government policies by proclaiming laws

43. A country that lacks good infrastructure and experiences little or no economic growth is called:
(a) A less developed economy
(b) A strangulated economy
(c) A transition economy
(d) A developed economy

Use the following information to answer problems 44 & 45. Suppose that there are only two goods in the world — corn and rice. Country A can produce up to 100 tons of corn or up to 300 tons of rice, and Country B can produce up to 200 tons of corn or up to 200 tons of rice. Assume that the PPFs of both countries have a constant slope.

44. Which statement is true based on the information above?
(a) Country A has an absolute advantage in producing corn
(b) Country B has an absolute advantage in producing rice
(c) Country A has a comparative advantage producing corn
(d) Country B has a comparative advantage producing corn

45. What is the marginal cost of corn in Country A?
(a) 1/3 tons of rice
(b) 2/3 tons of rice
(c) 3/2 tons of rice
(d) 3 tons of rice

46. When a country restricts the amount of a good that can be imported into the country it is called:
(a) A dumping
(b) A quota
(c) A tariff
(d) A margin

47. Belgium is a small open economy that exports chocolate. What would happen if the domestic demand for chocolate decreased?
(a) The amount of chocolate exported would decrease
(b) The amount of chocolate exported would increase
(c) The world price of chocolate would fall
(d) The amount of chocolate produced in Belgium would fall
Use Figure 4-1, which shows a small economy with a $8 tariff on watches, to answer problems 48 and 49.

Figure 4-1: Tariff on Watches

48. How many watches are purchased domestically if there is a $8 tariff?
   (a) 18 watches
   (b) 14 watches
   (c) 10 watches
   (d) 8 watches

49. How much revenue does the government make from this tariff?
   (a) $48
   (b) $64
   (c) $80
   (d) $112

50. If the government has a deficit of $100 billion in 2002 and government revenue equals $150 billion, what does government spending equal in 2002?
   (a) $50 billion
   (b) $100 billion
   (c) $150 billion
   (d) $250 billion

51. Are you planning on obtaining a minor in economics? [Hint: You will receive 5 points no matter which answer you select, but the best answers are “a” or “b”]
   (a) A minor? I am going all the way for a Ph.D. in economics
   (b) Sure thing. Give me a calculator and sign me up
   (c) I rather swim in a shark infested pool than complete a minor in economics
   (d) Nah. I prefer those incredibly easy marketing and business management classes