Solve the following multiple-choice problems and mark your answers on the scantron you were given. Write your name and section number on the scantron. (Each problem is worth 2 points)

1. **Skilled workers generally make a higher wage than unskilled workers because:**
   (a) They have a higher demand and a higher supply
   (b) They have a higher demand and a lower supply
   (c) They have a lower demand and a lower supply
   (d) They have a lower demand and a higher supply

2. **Evidence suggests that education raises the earnings of the workforce mainly by:**
   (a) Keeping young people out of the labor force, thus reducing the supply of labor
   (b) Increasing the marginal productivity of workers
   (c) Teaching workers how to demand a higher pay
   (d) Education has no affect on wages

3. **Which of the following is most likely to increase the wage of a job?**
   (a) If the number of worker who are able to perform the job increases
   (b) If the job becomes more prestigious
   (c) If the job becomes easier to perform
   (d) If the job becomes more stressful

4. **Most actors make very little money, but the most famous actors make millions of dollars per movie. This type of compensation scheme is known as:**
   (a) Compensation differential
   (b) Wage discrimination
   (c) Merit-based autocracy
   (d) Tournament play

5. **If a certain ethnic group earns a higher wage than another group this suggests:**
   (a) That the group that earns more has more human capital
   (b) That the group that earns less is discriminated against
   (c) That the group that earns more works harder
   (d) All of the above are possible

6. **All of the following characteristics are LIKELY to lead an individual to obtain a higher paying job, EXCEPT:**
   (a) No family commitments
   (b) Need for job security
   (c) Good work ethics
   (d) Intelligence
7. Why are American workers more productive than Chinese workers?
(a) American workers have less kids than Chinese and can spend more time working
(b) American workers have a higher IQ on average than Chinese workers
(c) American workers have better capital than Chinese workers
(d) All of the above

8. Recessions would not decrease productivity by as much as they do if companies:
(a) Would not react to the recession and wait until the economy expands again
(b) Would increase the prices of their products
(c) Would increase their investment
(d) Would fire more workers

9. A positive rate of time preference implies that an individual values:
(a) Receiving $100 now more than receiving $100 a year from now
(b) Receiving $100 now less than receiving $100 a year from now
(c) A safe investment more than a risky investment
(d) A risky investment more than a safe investment

10. Suppose that Eric can buy a condominium for $50,000 and sell it after two years for $60,000. If the interest rate is 7%, what is the Present Net Value of the condominium? Assume Eric does not rent the condominium.
(a) $2,406
(b) $5,677
(c) $6,075
(d) $8,734

11. Due to the introduction of a new technology, more firms want to invest. How will this affect the interest rate and the amount of loanable funds in the market?
(a) The interest rate will rise but the amount of loanable funds will fall
(b) The interest rate will fall but the amount of loanable funds will rise
(c) The interest rate and the amount of loanable funds will both rise
(d) The interest rate and the amount of loanable funds will both fall

12. A bank extends 100 loans for a year and charges a nominal interest rate of 6%. That year there is 2% inflation and 3% of the loans fail (were not paid back). What is the real interest rate of the bank?
(a) 9%
(b) 7%
(c) 3%
(d) 1%

13. Which one of these borrowers is most likely to receive the lowest interest rate?
(a) An individual who has some debt, but never failed to make the minimum payment
(b) An excellent student who never borrowed money before and has no credit cards
(c) An individual who has many credit cards and a very high debt
(d) A retired professor who is still paying mortgage on his house
14. If the interest rate is 5 percent, the net present value of an investment is $100,000 to be received in 2 years. What is the return on the investment in two years?
(a) $90,703  
(b) $95,238  
(c) $110,000  
(d) $110,250

15. Which of the following events will increase the net present value of obtaining college education?
(a) A decrease in the wages of high school graduates  
(b) An increase in tuition and lodging in colleges  
(c) A decrease in the interest rate  
(d) Earlier retirement age

16. Which of these are the major sources of economic profit in a market economy?
(a) Competition, perfect information and elasticity of demand  
(b) Economies of scale and the existence of numerous firms  
(c) Uncertainty, entrepreneurial skills and barriers to entry  
(d) Externalities, deflation and high interest rate

17. Which of the following is NOT a good example of government programs that reduces inequality?
(a) Welfare and workfare programs  
(b) Private retirement accounts  
(c) A progressive tax system  
(d) Medicare and Medicaid

18. Which of the following statements is correct about the United States?
(a) The percent of poor individual has increased since 1960  
(b) Most poor individuals remain poor for their entire life  
(c) Income inequality has generally increased since 1980  
(d) All of the above are true

19. What is the MAIN problem with transfer payments (such as welfare programs, unemployment compensation, etc.)?
(a) They create political debate as to which state should receive more transfers  
(b) They provide a tax break for the wealthy instead of helping the poor  
(c) They are too difficult to implement and monitor  
(d) They create a disincentive to work

20. Why certain firms compensate their workers using a tournament play scheme?
(a) In order to reduce the amount of fringe benefits that the company has to pay  
(b) In order to pay less taxes by only paying a few workers high salaries  
(c) In order to lead all workers to work harder in order to get a promotion  
(d) In order to raise the productivity of the top earners since marginal productivity adjusts to equal wages