ECO202: PRINCIPLES OF MACROECONOMICS
FIRST MIDTERM EXAM
SPRING 2008
Prof. Bill Even

FORM 1

Directions

1. Fill in your scantron with your unique id and form number. Doing this properly is worth the equivalent of 1 question.

2. There are 38 multiple choice questions.

3. Your grade is determined entirely upon the answers listed on your scantron. You will not receive your scantron back. Be sure to record your answers on your exam so that you will be able to check your answers once the key is posted.

4. You may use a calculator. Cell phones or other devices that may be used to store text are not allowed.

5. You have until the end of the period to finish the exam. Additional time may be purchased at a price of 5 percentage points per minute.

7. Academic dishonesty is a serious offense. In the event I find someone behaving in a dishonest manner, I will ask that the maximum penalty allowed by the university be imposed.
1. The loss in output that results when the economy produces below its potential GDP is referred to as the

2. If a country is a net borrower from the rest of the world, the country
   a. must have a current account surplus.
   b. must have a current account deficit.
   c. must have a government budget deficit.
   d. must have a government budget surplus.

To answer the next 5 questions, refer to the information for the U.S. economy provided below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Real GDP (in billions of $)</th>
<th>Nominal GDP (in billions of $)</th>
<th>Civilian Working Age Population (in 1000s)</th>
<th>Civilian Labor Force (in 1000s)</th>
<th>Unemployed (in 1000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>9,817.0</td>
<td>9,817.0</td>
<td>212,577</td>
<td>142,583</td>
<td>5,692</td>
</tr>
<tr>
<td>2006</td>
<td>11,319.4</td>
<td>13,194.7</td>
<td>228,815</td>
<td>151,428</td>
<td>7,001</td>
</tr>
<tr>
<td>2007</td>
<td>11,658.9</td>
<td>13,970.5</td>
<td>231,867</td>
<td>153,124</td>
<td>7,078</td>
</tr>
</tbody>
</table>

3. Based on the information provided, the unemployment rate in 2007 was:
   a. 4.6%  b. 4.2%  c. 5.4%  d. 5.1%

4. Based on the information provided, the GDP deflator in 2007 was:
   a. 83.4  b. 96.7  c. 119.8  d. 136.5

5. Based on the information provided, the rate of inflation between 2006 and 2007 was
   a. 3.1%  b. 2.8%  c. 2.1%  d. 1.9%

6. Based on the information provided, the average annual rate of inflation between 2000 and 2007 was:
   a. 3.1%  b. 2.6%  c. 2.1%  d. 1.7%

7. In 2007, the employment population ratio was:
   a. 63.0%  b. 66.0%  c. 88.2%  d. 95.4%

8. Suppose that between 2007 and 2008, 1 million unemployed workers become discouraged and quit looking for work. This would cause the unemployment rate to ______ and the labor force participation rate to ______.
   a. rise; rise.  b. rise; fall.  c. fall; fall.  d. fall; rise.
9. Which of the following could cause the both the unemployment rate and the labor force participation rate to rise?
   a. students who were previously not employed or looking for work begin searching for jobs and are available for work immediately.
   b. unemployed workers become discouraged and quit looking for work.
   c. employed workers become unemployed and begin searching for work.
   d. none of the above.

10. If everyone expects inflation of 5% over the next year and inflation actually turns out to be 20%,
   a. lenders would win and borrowers would lose.
   b. borrowers would win and lenders would lose.
   c. employers would win and employees would lose.
   d. both a and b.
   e. both b and c.

11. Suppose that the capital stock in the U.S. rises from 1,800 billion to 1,900 billion between 2006 and 2007. This implies that:
   a. gross investment in 2006 was $100 billion.
   b. net investment in 2006 was $100 billion.
   c. depreciation (capital consumption allowance) in 2006 was $100 billion.
   d. none of the above.

12. Which of the following equals the expenditure side of GDP?
   a. wages + rent + interest + profits
   b. wages + rent + interest + profits + indirect business taxes.
   c. consumption + investment + government purchases + net exports.
   d. consumption + government purchases + saving + taxes.

13. Real GDP in 2006 is $200. Between 2006 and 2007, real GDP grew at 4% if 2006 prices are used and 6% if 2007 prices are used. Using the chain-weighted method, what is real GDP in 2007?
   a. $205  b. $210  c. $220  d. none of the above.

14. Suppose that in the U.S., the government has a budget deficit and investment equals saving. This implies that U.S. imports are (greater, less) than exports and the U.S. is (borrowing, lending) internationally.
   a. greater; borrowing.
   b. greater; lending.
   c. less; borrowing
   d. less; lending.
15. Suppose that U.S. increases its imports and there is no change in exports or the government budget deficit. This would necessitate either:
   a. an increase in saving or investment.
   b. an increase in saving or a decrease in investment.
   c. a decrease in saving or an increase in investment.
   d. a decrease in saving or investment.

16. Suppose that personal consumption expenditure=80, private saving=10, government purchases of goods and services=30, net taxes=35, imports=10 and exports=20. What is the value of gross private investment?
   a. 10  b. 15  c. 25  d. 30

17. Assuming that 2005 is the base year, nominal GDP in 2006 is _____ and real GDP in 2006 is _____.
   a. $6100; $2300.
   b. $2300; $6100
   c. $6100; $6100
   d. none of the above.

18. Assuming that 2005 is the base year, the GDP deflator is ____ in 2005 and _____ in 2006.
   a. 100; 370
   b. 100; 265
   c. 265; 370
   d. 370; 100

19. Suppose that real GDP is rising over time in the U.S. This growth in real GDP is likely to understate the improvement in the standard of living if
   a. workers work fewer hours.
   b. environmental conditions improve.
   c. crime rates decrease.
   d. all of the above.

20. Between 1990 and 2005, the average nominal wage in the U.S. increased from $10.20 to $16.13. Over the same period, the real wage (in 1982 dollars) rose from $7.66 to $8.18. Based on this information, you can conclude that
   a. the price index rose from 133 to 197 between 1990 and 2005.
   b. nominal wage growth exceeded the inflation rate between 1990 and 2005.
   c. nominal wage growth was less than the inflation rate between 1990 and 2005.
   d. both a and b.
   e. both a and c.
21. Between 1980 and 2005, the CPI rose from 82.4 to 195.3. If a worker received a nominal wage of $10 per hour in 1980, she would have to receive a nominal wage of _____ in 2005 in order that her real wage would be unchanged.
   a. $19.53
   b. $23.70
   c. $18.43
   d. $12.13

22. It is well known that the growth in the CPI is a biased measure of the true growth in the cost of living. Because of this bias, government expenditures on Social Security grow (faster, slower) than the growth in the true cost of living and government tax revenues grow (faster, slower) than the growth in the true cost of living.
   a. faster; faster
   b. faster; slower
   c. slower; faster
   d. slower; slower

23. If the economy producing GDP below potential GDP, employment is (above, below) full employment and the unemployment rate is (above, below) the natural rate of unemployment.
   a. above; above
   b. above; below
   c. below; below
   d. below; above

25. When the economy is at full employment,
   a. there is no structural unemployment.
   b. there is no cyclical unemployment.
   c. there is no frictional unemployment.
   d. all of the above.

25. If a worker loses his job in the automobile industry because there is a permanent decrease in the demand for cars, this worker would be experiencing:
   a. frictional unemployment
   b. structural unemployment
   c. cyclical unemployment
   d. natural unemployment

26. The labor demand curve is the same as:
   a. the marginal product of labor curve.
   b. the average product of labor curve.
   c. the real wage curve.
   d. the production possibilities curve.

27. The government’s budget deficit tends to be (pro-, counter-) cyclical because during an expansion tax revenues ____ and government spending _____.
   a. pro; rise; rise.
   b. pro; fall; rise.
   c. counter; fall; rise.
   d. none of the above.
28. If there is a surplus in the labor market,
   a. the real wage must be below $5.
   b. the real wage must be above $5.
   c. the unemployment rate will be below the natural rate.
   d. both a and c.
   e. both b and c.

29. If the economy is at full employment,
   a. the marginal product of labor would be $20 and productivity would be below $20.
   b. the marginal product of labor would be $20 and productivity would be above $20.
   c. productivity would be $20 and the marginal product of labor would be above $20.
   d. productivity would be $20 and the marginal product of labor would be below $20.

30. Which of the following would simultaneously increase the real wage and decrease the number of hours employed in the U.S. economy?
   a. if all immigrants in the U.S. were deported.
   b. if the U.S. allowed more immigrants into the U.S.
   c. if there was an increase in the amount of capital in the U.S. that made workers more productive.
   d. none of the above.

31. Which of the following would shift the production function upwards?
   a. an improvement in technology.
   b. an increase in the capital stock.
   c. an increase in worker skills.
   d. all of the above.
32. Which of the following would increase potential GDP?
   a. an increase in immigration.
   b. an increase in the stock of capital.
   c. a rightward shift of labor demand.
   d. all of the above.

33. Consider the market for loanable funds. Which of the following would lead to increased investment and lower interest rates?
   a. an increase in household saving.
   b. an increase in investment demand.
   c. an increase in the government budget deficit.
   d. all of the above.

34. If banks discover that the number of loans requested far exceeds the number of loans that they have available, this is an indication that the interest rate is (above, below) the equilibrium interest rate and that there is a (shortage, surplus) of loans.
   a. above; shortage. b. above; surplus. c. below; shortage. d. below; surplus.

35. An increase in the government budget deficit should cause:
   a. higher interest rates and less investment.
   b. higher interest rates and more investment.
   c. lower interest rates and less investment.
   d. lower interest rates and more investment.
36. Which of the following would lead to higher interest rates?
   a. households receive news that makes them believe that their incomes will drop in the future.
   b. the value of household wealth increases due to an unexpected increase in the value of their stock holdings.
   c. a technological innovation that results in a large increase in capital purchases by business.
   d. all of the above.

37. “Pro-growth” policies attempt to increase potential GDP. Which of the following policies would be “pro-growth”?
   a. policies aimed at increasing the level of saving since this stimulating investment and shift the production function upward.
   b. a more open immigration policy since this would increase labor supply.
   c. policies that increase the level of education in the economy since this would shift the production function upward and increase labor demand.
   d. all of the above.

38. The stimulus package just signed by President Bush will:
   a. provide tax rebates to many Americans
   b. increase the federal budget deficit
   c. increase loan demand and contribute to higher interest rates.
   d. all of the above.
   e. only a and b.

39. As the baby boomers move from their 50s into retirement, we should expect to see:
   a. higher interest rates and less investment.
   b. higher interest rates and more investment.
   c. lower interest rates and less investment.
   d. lower interest rates and more investment.
Answers

1  A
2  B
3  A
4  C
5  B
6  B
7  A
8  C
9  A
10 E
11 B
12 C
13 B
14 A
15 C
16 C
17 A
18 B
19 D
20 D
21 B
22 B
23 D
24 B
25 B
26 A
27 D
28 B
29 D
30 A
31 D
32 D
33 A
34 C
35 A
36 x
37 D
38 D
39 A