Name (Please print) _____ Assigned Seat_____

ECO202: PRINCIPLES OF MACROECONOMICS
FIRST MIDTERM EXAM
SPRING 2009
Prof. Bill Even

FORM 4

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 46 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.

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

6. 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. A correct ordering of the four stages of the business cycle is:
a. recession, peak, expansion, trough
b. recession, trough, peak, expansion
c. expansion, peak, recession, trough
d. none of the above.

2. The consensus view among economists is that the recession today is largely the result of
a. declining auto sales
b. the subprime loan crisis
c. deficit spending by the federal government
d. loss of jobs to outsourcing

3. The current recession in the U.S. started in:
a. the first quarter of 2007
b. the fourth quarter of 2007
c. the second quarter of 2008
d. the third quarter of 2008

4. Which of the following policies is LEAST likely to stimulate economic growth?
a. tax incentives for purchases to purchase more capital.
b. more generous Social Security benefits for retirees.
c. less generous unemployment insurance benefits.
d. allowing more immigrant workers into the U.S.

5. An Okun gap occurs whenever:
a. there is a slowdown in productivity growth, even if the economy produces potential GDP.
b. the economy produces below potential GDP.
c. there is a Lucas wedge.
d. all of the above.

6. If a country is a net lender to 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.

7. Suppose that real GDP is rising over time in the U.S. This growth in real GDP is likely to overstate the improvement in the standard of living if, over time
a. workers increase work hours.
b. environmental conditions worsen.
c. crime rates rise.
d. all of the above.

Suppose that an economy produces only apples and oranges and the prices and quantities of each are given in the table below.

Year	Price of oranges	Quantity of Oranges	Price of apples	Quantity of Apples
2005	2	500	3	1000
2006	2	800	4	1500

8. Assuming that 2006 is the base year, nominal GDP in 2005 is _____ and real GDP in 2005 is _____.
a. $6100; $7600
b $5000; $4000
c. $4000; $5000
d. none of the above.

9. Suppose that between 2007 and 2008, both the labor force participation and unemployment rate increase. Which of the following could explain these simultaneous changes?
a. 1 million workers are laid off and 500,000 of these workers retire.
b. 1 million workers are laid off and none of these workers retire.
c. 1 million people who were out of the labor force begin searching for jobs and 800,000 of these workers find jobs.
d. 1 million people who were unemployed quit searching for work without finding jobs.

To answer the next 4 questions, refer to the information for the U.S. economy provided below.

Year	Nominal GDP (in billions of $)	Real GDP (in billions of $)	Civilian Working Age Population (in 1000s)	Civilian Labor Force (in 1000s)	Employed (in 1000s)
2000	9,817.0	9,817.0	212,577	142,583	136,891
2006	13,194.7	11,319.4	228,815	151,428	144,427
2007	13,970.5	11,658.9	231,867	153,124	146,046

10. Based on the information provided, the average annual rate of inflation between 2000 and 2006 was:
a. 3.1% b. 2.6% c. 2.1% d. 1.7%

11. Based on the information provided, the unemployment rate in 2000 was:
a. 4.0% b. 4.2% c. 5.2% d. 7.2%

12. Based on the information provided, the GDP deflator in 2006 was:
a. 85.8 b. 96.7 c. 116.6 d. 123.4

13. In 2006, the labor force participation rate was:
a. 63.0% b. 66.2% c. 87.5% d. 93.2%

14. The most recent data on unemployment (released this past week) places the U.S. unemployment rate at:
a. 5.6% b. 6.8% c. 7.6% d. 8.2%

15. During a recession, the number of “discouraged workers” tends to (rise, fall) and this contributes to a (higher, lower) unemployment rate.
a. rise; higher. b. rise; lower. c. fall; higher. d. fall; lower.

16. Over the past 3 months, the U.S. has lost approximately:
a. 0.5 million jobs b. 1.5 million jobs
c. 3 million jobs d. 4.5 million jobs.

17. Over the past decade, the U.S. has experienced a current account _____
a. deficit and is therefore a net lender to the rest of the world.
b. deficit and is therefore a net borrower from the rest of the world.
c. surplus and is therefore a net lender to the rest of the world.
d. surplus and is therefore a net borrower from the rest of the world.

18. The unemployment rate is (pro-, counter-) cyclical and the labor force participation rate is (pro-, counter-) cyclical.
a. pro; pro b. pro; counter. c. counter; pro d. counter; counter

19. If there is a sudden and unexpected increase in prices:
a. lenders and borrowers will lose
b. lenders will lose and borrowers will win.
c. lenders will win and borrowers will lose.
d. lenders and borrowers will lose.

20. Which of the following represents the four components to the expenditure side of GDP?
a. consumption, saving, investment, taxes
b. consumption, government purchases, taxes, investment
c. consumption, saving, taxes and net exports.
d. consumption, government purchases, investment, net exports.

21. Based on the circular flow model, we know that additional investment can be financed by :
a. more saving
b. a smaller government budget deficit
c. a decrease in net exports
d. all of the above.

22. If the dollar strengthens relative to foreign currency,
a. U.S. goods will become less expensive in foreign countries and our exports will rise.
b. U.S. imports from foreign countries will become less expensive and our imports will rise.
c. both a and b.
d. none of the above..

23. If the capital stock grows by $100 billion during 2008,
a. net investment in 2008 must be $100 billion
b. gross investment in 2008 must be $100 billion
c. depreciation during 2008 must be $100 billion more than gross investment.
d. depreciation during 2008 must be $100 billion less than net investement.

24. Suppose Deborah graduates from college and begins searching for a new job. As she searches for a new job, she is:
a. structurally unemployed
b. frictionally unemployed
c. cyclically unemployed
d. intellectually unemployed

25. An increase in inventories during 2008 is an indication that:
a. more goods were produced during 2008 than were sold during 2008.
b. more goods were sold during 2008 than were produced during 2008.
a. more goods were produced during 2008 than were sold during 2007.
b. more goods were sold during 2008 than were produced during 2007.

26. When the economy is producing at full employment,
a. the unemployment rate is zero.
b. there is only cyclical and frictional unemployment, and no structural unemployment.
c. there is only structural and frictional unemployment, and no cyclical unemployment.
d. there is only cyclical unemployment, but no structural or frictional unemployment.

27. Most economists believe that the baby boom generation caused:
a. an increase in the natural rate of unemployment during the 1970s because younger workers have more frictional unemployment.
b. an increase in the natural rate of unemployment during the 1970s because younger workers have more structural unemployment.
c. a decrease in the natural rate of unemployment during the 1970s because younger workers have less frictional unemployment.
d. a decrease in the natural rate of unemployment during the 1970s because younger workers have less cyclical unemployment.

28. Suppose that in the U.S., the government increases its budget deficit by $100 billion and net exports are unchanged. Based upon the circular flow model, assuming no change in net exports, this implies that
a. if private saving does not change, investment will decrease by $100 billion.
b. if private saving does not change, investment will increase by $100 billion.
c. if private saving does not change, investment will not change.
d. none of the above.

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

30. 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.

31. It is profitable for a firm to hire another worker if and only if:
a. the marginal product of labor exceeds the real wage.
b. the average product of labor exceeds the real wage.
c. the marginal product of labor exceeds the nominal wage.
d. the average product of labor exceeds the nominal wage.

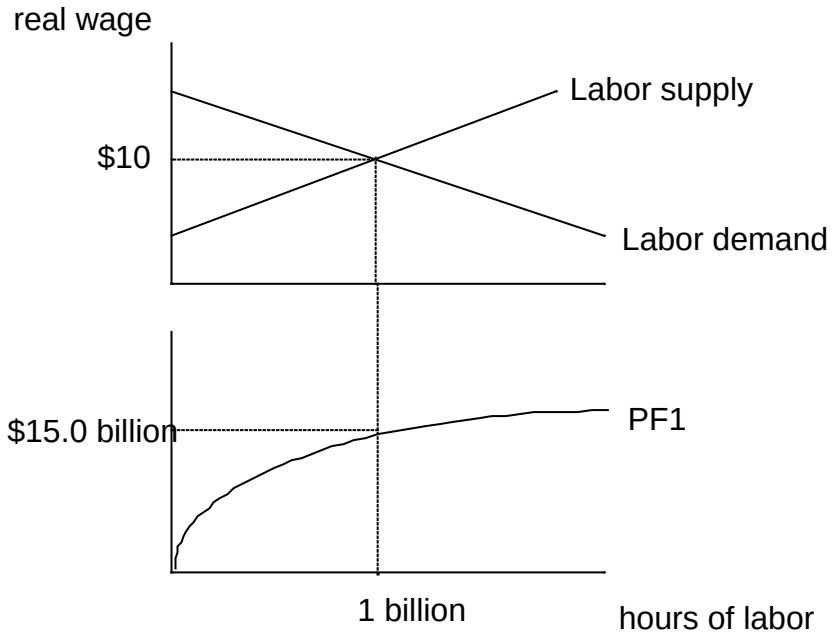
32. The CPI rose from 86.4 to 211.5 between 1980 and 2008. Based on this information, what was the average annual rate of inflation between 1980 and 2008?
a. 2.3% b. 2.7% c. 3.2% d. 3.7%

33. If the economy is producing more than potential GDP, the unemployment rate will:
a. equal the natural rate of unemployment.
b. exceed the natural rate of unemployment.
c. lie below the natural rate of unemployment
d. have to be negative, which makes it impossible to produce more than potential GDP.

34. The CPI rose from 86.4 to 211.5 between 1980 and 2008. If a worker earned $12 per hour in 1980, what would the nominal wage have to be in 2008 in order that real wages be unchanged over time?
a. $25.38 b. $29.38 c. $13.89 d. $14.37

35. An increase in potential GDP would occur if:
a. worker skills improve or the economy acquires more capital.
b. transfer programs are made more generous.
c. the population shrinks.
d. all of the above.

To answer the next question, refer to the diagram below.



36. If the economy is at full employment, the marginal product of labor would be ____ and productivity would be _____.
a. $15; $10
b. $10; $15
c. $10; less than $15
d. $15 less than $10

37. An increase in potential GDP would occur if:
a. labor suppy increases
b. labor demand increases.
c. the production function shifts up.
d. all of the above.

38. If transfer programs like Social Security were made more generous, we should expect real wages to _____ and employment to _____.
a. rise; rise. b. rise; fall. c. fall; fall. d. fall; rise.

39. An increase in the government budget deficit should cause:
a. lower interest rates and less investment.
b. lower interest rates and more investment.
c. higher interest rates and less investment.
d. higher interest rates and more investment.

40. Which of the following would lead to lower real wages and a decrease in productivity?
a. a decrease in labor supply.
b. an increase in labor supply.
c. a decrease in labor demand.
d. both b and c.

41. Consider the market for loanable funds. Which of the following would lead to less 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. none of the above.

42. Businesses in the U.S. have become pessimistic about future sales growth in the U.S. economy. Assuming no change in the supply of loans, this should lead to:
a. lower interest rates and less investment.
b. lower interest rates and more investment.
c. higher interest rates and less investment
d. higher interest rates and more investment.

43. Consumers in the U.S. have become quite nervous about the possibility of job loss in recent months. Assuming no effect on investment demand and the likely impact this has on saving, this should lead to:
a. lower interest rates and more investment.
b. lower interest rates and less investment.
c. higher interest rates and more investment.
d. higher interest rates and less investment.

44. The economic stimulus package includes:
a. additional spending on infrastructure
b. tax rebates for households
c. federal funds distributed to states
d. all of the above.

45. The projected cost of the economic stimulus package (excluding the funds allocated for the financial system) is approximately:
a. $400 billion
b. $800 billion
c. $1.2 trillion
d. $2.5 trillion

46. If China decides that it no longer wishes to lend money to the U.S., this will likely lead to:
a. higher interest rates and less investment in the U.S.
b. higher interest rates and more investment in the U.S.
c. lower interest rates and more investment in the U.S.
d. lower interest rates and less investment in the U.S.