

Exam 1

Eco 202 Prof. Platt

Please put all answers in the blue book, NOT in the exam. Make sure your name and section is on the cover of the blue book(s). If you have a question, raise your hand and when I acknowledge you, quietly come to the front of the classroom. I need not remind you that looking at another exam is cheating and you will automatically fail the course. That being said, relax and take a deep breath. If you know the material you will have no problem finishing this exam in the allotted time. If you do not know the answer to a question right away, skip it and return to it later. **SHOW ALL OF YOUR WORK.** Good luck!

Micro

1. Jicama is a vegetable that most folks in the U.S. had not heard about until recently. It costs about \$1.50 a piece and it grows in the ground much like a potato. It is used in salads, as well as other dishes. Most folks say that it is pretty much the same thing as a Turnip.

a. All U.S. Farmers can grow 100 Yams or 75 Jicama on a hectare of land. Assuming that there is no other use for the land, what is the opportunity cost of producing a Yam?

b. Draw the PPF for the U.S. which (we will pretend) has 20 hectares of land.

c. Yams are an inferior good. We also know that the government just passed the Yam tax, where firms pay a \$1 tax per Yam sold. If we know that incomes rose this year, the net effect on equilibrium p and q of the rise in incomes and the Yam tax will be

- a. price rises
- b. price falls
- c. we can't say for sure what happens to price

AND

- a. quantity rises
- b. quantity falls
- c. we can't say for sure what happens to quantity

d. Draw the market for Jicama. Both firms and consumers expect the price of Jicama to fall in the future. Draw the effects of these expectations on the equilibrium price and quantity in the graph you just drew.

Macro

1. True or False and explain - An expansion is where real GDP rises, and a recession is where real GDP falls.

2. The longest expansion of the U.S. economy is

- a. The Reagan Years (1982-1990)
 - b. World War II Years (after the great depression)
 - c. The Corporate Prosperity Years
 - d. The Vietnam War Years
3. Use aggregate supply and demand curves and the market for loanable funds to show why we might expect there to be an inverse relationship between interest rates and inflation.
4. What is the key difference between the CPI and the GDP Price Deflator? [ONE SENTENCE]
5. What are the three goals of macroeconomic policy and why are they important?
6. Show how stagflation occurs in the context of an AS-AD diagram. If the government is concerned about inflation and wants to lower prices, would they want to follow supply-side policy or demand -side policy? Show this in your graph.
7. The slope of the per-worker production function [**Choose One**](rises/falls) as more capital is used. Why is this?
8. True or False and explain - U.S. productivity was rising until the 1950's, but basically has been falling since then.
9. There are 100 people in Plattland - 10 are in the army, 10 in jail, 15 in college, 5 stay at home raising their own children, 20 have full time jobs, 10 have part time jobs, and 10 are looking for work. What is the unemployment rate?
10. If the labor force participation rate is rising, the unemployment rate must be
- a. rising
 - b. falling
 - c. not changing
 - d. there is not enough information to answer this question
11. If I am quit my Prof. job to move to California, and I haven't found a Prof. job there yet, though I am sure I will. My unemployment would be characterized as
- a. frictional
 - b. structural
 - c. seasonal
 - d. cyclical
12. True or False and explain - Full employment means an unemployment rate of zero. This is the goal of policy, though this has not ever been achieved.
13. The average duration of unemployment is about

- a. 2 weeks
- b. 4 weeks
- c. 16 weeks
- d. 30 weeks
- e. 50 weeks

14. Consider the following prices,

Good	Price in 1980 (\$)	Price in 1981 (\$)	Price in 1982 (\$)
Jicama	2	3	4
Pop-Rocks	1	1	2
Jolt	4	5	7

If 1981 is the base year, what was the inflation rate from 1980-81?

15. If an economy produces twice as many goods as the year before and during that time, nominal GDP stayed the same, then inflation (as measured by the GDP Price deflator) must have been _____%.

16. Consider the following information about output for an economy

Goods	1996 Price	1996 Q	1995 Price	1995 Q
Books	\$5	200	\$3	500
Shoes	\$10	300	\$9	350

What is the GDP Price deflator for 1996, if 1995 is the base year.

17. Assume interest rates are 3% for the next 2 years. If Ed McMahon is offering you \$100,000 a year for the next 2 years (paid at the end of year 1 and at the end of year 2) OR he says he will give you \$190,000 in cash now - which should you take?

18. True or False - As long as inflation is positive, the nominal interest rate will be lower than the real interest rate.