

Econ 5 Winter 2003 : Prof. Haslag
Principles of Macroeconomics
1st Exam

Test Version: _____

Name _____ Student# _____ Lab _____

Instructions: Please read the following carefully

1. On your scantron sheet, please write down the following:

- a. Student name : your name
- b. Student No. : your MU student number
- c. Teacher : your TA's name
- d. District : your lab section

Also, please fill out the following bubbles

- e. Special Code : your test version number (it's on top right of next page)
- f. Student Number : your student number

There are twenty columns in this section. **In the first column, put and fill your lab section.** Skip a column then put and fill your last name. Skip another column and put and fill your first name (as many as possible).

Example: Joe Haslag in section A

A		H	A	S	L	A	G		J	O	E								
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2. please show your student ID when you turn in your scantron sheet. The proctors will also check your exam and take the cover page out.

3. Your lab section information

TA	LAB	TIME	DAY	LOCATION
SooDong	A	8:00-8:50	T	GCB 219
	B	8:00-8:50	R	GCB 221
	D	9:00-9:50	R	A&S 201
	N	12:30-1:20	R	HILL 201
New	C	8:00-8:50	R	GCB 217
	E	9:00-9:50	R	GCB 318
	H	11:30-12:20	R	GCB 221
	R	2:00-2:50	R	GCB 221
Michel-Ange	G	11:00-11:50	T	A&S 301
	J	12:00-12:50	T	A&S 310
	P	1:00-1:50	R	GCB 109
	U	2:00-2:50	R	MDLBH 306

TA	LAB	TIME	DAY	LOCATION
Zhang	K	9:30-10:20	T	A&S 103
	L	12:30-1:20	T	MDLBH 205
	Q	2:00-2:50	T	A&S 101
	V	11:00-11:50	T	A&S 235
Zat	F	8:00-8:50	T	A&S 235
	M	9:30-10:20	T	MDLBH 208
	S	3:30-4:20	T	MDLBH 133
Brian	T	11:00-11:50	R	MDLBH 207

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TEST VERSION 1

1. Which of the following will *not* shift an economy's Production Possibility Frontier outward from the origin?
 - i) an increase in the capital stock
 - ii) a technological advance
 - iii) a reduction in hours worked*
 - iv) an increase in the size of the labor force

2. The supply curve of Pepsi will shift to the right if
 - i) the price of Pepsi increases
 - ii) the price of Coke increases
 - iii) the price of Coke decreases
 - iv) technological development means that more Pepsi can be produced with the same quantity of inputs*

3. In the year 2003, the consumer price index is 152.4. Suppose the market basket of goods costs \$2000 to purchase in the 1995, the base year for the index. What would the market basket of goods cost in 2003?
 - i) \$1312
 - ii) \$2000
 - iii) \$3048*
 - iv) \$1297

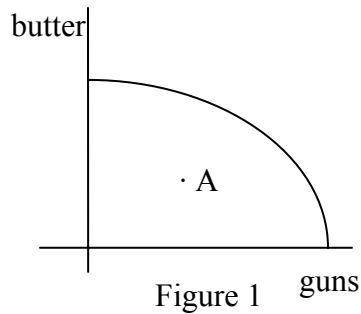
4. In 1994, Radio Shack added \$3 million of product to its inventories. In 1995, Radio Shack completely sells product out of its inventory for \$6.5 million, leaving \$1.3 million worth of inventory. What impact did these purchases have on GDP in 1994? In 1995?
 - i) \$3 million; \$6.5 million
 - ii) \$3 million; \$4.8 million*
 - iii) \$3 million; \$3.5 million
 - iv) \$3 million; \$7.8 million

5. Suppose the equilibrium price of bagels is \$2.25. Which of the following statements would best characterize conditions in bagel market at a price of \$1.75?
 - i) there would be a shortage of bagels and market forces would push up the price.*
 - ii) there would be a surplus of bagels and market forces would push up the price.
 - iii) there would a shortage of bagels and market forces would push down the price.
 - iv) there would be a surplus of bagels and market forces would push down the price.

6. In a year, workers in Columbia can produce 500 bushels of wheat or 40 barrels of oil. In a year, workers in Lawrence can produce 100 bushels of wheat or 80 barrels of oil. Which of the following statements is true?
 - i) Columbia has a comparative advantage in wheat*
 - ii) Columbia has a comparative advantage in oil
 - iii) Columbia has an absolute advantage in both goods
 - iv) Columbia has an absolute advantage in oil.

7. Your grandfather tells you that he earned \$3.50 an hour in 1960. The CPI in 1960 was 0.3. In 2003, the CPI is 1.71. If your grandfather's hourly wage was indexed to the CPI, his wage in 2003 would be
 - i) \$10.50
 - ii) \$19.95*
 - iii) \$30.10
 - iv) \$59.80

8. An American businessman works in Milan during 2002. He earns \$75,000. According to the factor-payment method, this income would be (for USA.)
- included in GDP, but excluded from GNP
 - included in GDP and GNP
 - included in GNP, but excluded from GDP*
 - excluded from both GDP and GNP



9. Figure 1 depicts a production possibility curve. The point labeled A in Figure 1 represents
- the combination of guns and butter that is unattainable
 - the combination of guns and butter that is an efficient one
 - the combination of guns and butter that is an inefficient one*
 - none of the above

10. According to the Law of Demand

- quantity demanded increases as the price increases
- quantity supplied increases as the price increases
- there is an inverse relationship between quantity demanded and price*
- demand is positively related to the price of substitute goods

11. There are 100,000 people in Wyoming. Suppose that 60% of the population is either working or indicates that they actively looking for work. If 54,000 people are employed in Wyoming, the unemployment rate is

- 46%
- 11%
- 40%
- 10%*

12. Robinson Crusoe lives alone on an island. He spends his time fishing or picking coconuts or some combination of the two. Suppose that Robinson's opportunity cost of catching fish is five coconuts. Which of the following equations could possibly represent Robinson's Production Possibility Curve?

- $\text{fish} = 20 + 5 \cdot \text{coconuts}$
- $\text{fish} = 20 - (1/5) \cdot \text{coconuts}^*$
- $\text{fish} = 20 + (1/5) \cdot \text{coconuts}$
- $\text{fish} = 20 - 5 \cdot \text{coconuts}$

13. During a bout of high inflation, prices of all goods are rising. Peter cannot tell whether the relative price of his favorite product, Grape Nehi, has risen relative to prices of other goods or fallen relative to prices of other goods. This scenario best characterizes which of the welfare costs of inflation?
- bracket creep
 - insidious transfer
 - noisy prices*
 - shoe-leather costs
14. Brad borrows \$200 from Jen today. He promises to pay her back \$222 in one year. Brad expects prices will increase at a 7% rate between now and the date he repays Jen. If the actual inflation rate is 3%, then
- Brad receives an unexpected transfer of goods from Jen.
 - Jen receives an unexpected transfer of goods from Brad.*
 - Brad expected the real interest rate would be 7%.
 - The real interest rate was actually 3%.
15. GNP measures the _____ .
- market value of final goods and services produced within a specific time period within a specific country.
 - market value of final goods and services produced within a specific time period by citizens of a specific country.*
 - market value of goods sold to citizens of specific country with a specific time period.
 - market value of final goods and services sold within a specific time period within a specific country.
16. There is an increase in the price of tickets to soccer games. What effect will this change have the on equilibrium price and quantity of baseball tickets?
- price will increase and quantity will increase*
 - price will increase and quantity will decrease
 - price will decrease and quantity will increase
 - price will decrease and quantity will decrease
17. The island economy produces two goods: straw hats and pineapple juice. In the base year, it produced 1000 straw hats at a price of \$5 and 200 quarts of pineapple juice at a price of \$2 per quart. The next year, the economy produced 1050 straw hats at \$4 per hat and 250 quarts of pineapple juice at a price of \$2 per quart. Compute real GDP for each year.
- \$5400 in the base year and \$5750 in the following year*
 - \$5400 in the base year and \$4700 in the following year
 - \$4500 in the base year and \$5750 in the following year
 - \$4500 in the base year and \$4700 in the following year
18. Using the data from question above, compute the GDP deflator.
- 1 in the base year and 2 in the following year
 - 1 in the base year and 0.75 in the following year
 - 0.5 in the base year and 1 in the following year
 - 1 in the base year and 0.81 in the following year*

19. The government hires workers and purchases materials to build roads, hospitals, and subways. If one uses the expenditure method, these government purchases of inputs
- should not be included in GDP because the expenditure method computes the purchases of final goods and services, attributing those purchases to the final purchaser.
 - should not be included in GDP because these are inventories.
 - should be included in GDP but would be omitted if one were applying the expenditure method because these are factors of production not final sales.
 - should be included in GDP because there is no market for the purchase of the goods produced by the government; instead, expenditure method treats the market value of such public goods by the cost of the inputs.*
20. A price ceiling is ineffective. From this statement, one can infer that
- the equilibrium price is below the price ceiling set by policy*
 - the equilibrium price is above the price ceiling set by policy
 - the statement is false because a price ceiling is always effective
 - none of the above
21. What is the difference between supply and quantity supplied?
- Supply refers to all the combinations of price and quantity supplied.*
 - The two terms mean the same thing.
 - The Law of Supply says that quantity supplied is inversely related to price.
 - A change in quantity supplied is represented by a shift in the location of the supply curve.
22. Suppose that a French cheesemaker purchases a factory in Wisconsin. The Frenchman immediately raises the price of the product. Which of the following statements is true (for USA.)?
- the GDP deflator will rise and the GNP deflator will rise
 - the GDP deflator will be unaffected and the GNP deflator will rise
 - the GDP deflator will rise and the GNP deflator will be unaffected*
 - neither the GDP deflator nor the GNP deflator will be unaffected
23. Robert's production Possibility Curve is represented by the following equation: $G = 300 - 8*B$, where G stands for the quantity of guns produced and B stands the pounds of butter produced. What is Robert's opportunity cost of producing one gun?
- 300 pounds of butter
 - 8 pounds of butter
 - 1/8 pound of butter*
 - none of the above
24. Richard purchases 20 new Porsches for his sales force. According to the expenditure method, these purchases would be recorded as
- investment*
 - consumption
 - government purchases
 - net exports
25. The benefits of trade are based on the notion that
- producers with comparative advantage in a particular good specialize in the production of that good*
 - producers with an absolute advantage in a particular good specialize in the production of that good
 - producers with an absolute advantage in a variety of different goods specialize in the production of all those goods
 - all producers practice autarky

26. In 2002 and 2003, the CPI increases at a 7% rate. In 2001, I earn \$15 per hour. Each year, I receive a 3% increase in my real wages. What would my wage be in 2003?
- \$15
 - \$18.15*
 - \$15.90
 - \$18
27. Scientists find that a protein in Brussels sprouts can cause people to become violently ill. If the price of carrots rises, then
- Brussels sprouts and carrots are complementary goods
 - Carrots are a normal good
 - Brussels sprouts and carrots are both inferior goods
 - Brussels sprouts and carrots are substitute goods*

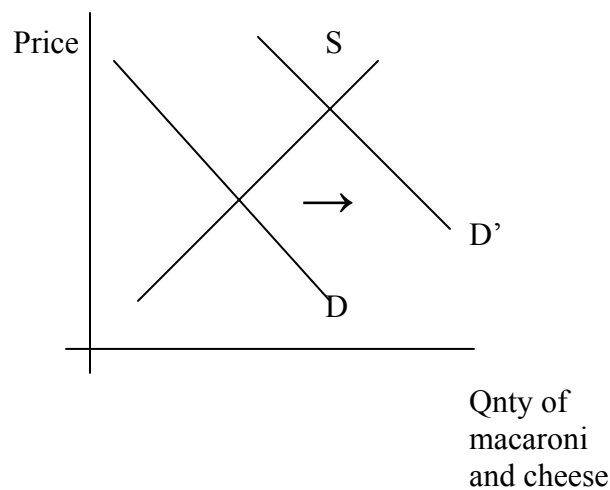


Figure 2

28. Figure 2 depicts a rightward shift in the demand curve for macaroni and cheese from D to D'. The shift is a response to a decline in people's income. Thus, we know that
- macaroni and cheese is an inferior good*
 - macaroni and cheese is a normal good
 - the equilibrium price of macaroni and cheese fell
 - macaroni and cheese and income are substitute goods
29. Which of the following statements is most consistent with The Principle of Increasing Opportunity Costs?
- To produce one more hour of economics lectures, I will have to give up one less hour of research than I did to produce the last hour of economics lectures.
 - To produce one more hour of economics lectures, I will have to give up one more hour of research than I did to produce the last hour of economics lectures.*
 - I can produce both more economics lectures and more research if I trade with someone.
 - Society can realize a larger quantity of economics lectures and research if I specialize in producing economics lectures.

30. According to the Value-Added Method, I compute annual GDP by
- i) summing all the market value of all final purchases of goods and services made by U.S. citizens during a calendar year.
 - ii) summing payments made to all inputs used in the production of final goods and services in the U.S. during the year.
 - iii) looking at each step in the production process, taking the difference between the cost of inputs and market value at which the item sold and summing this difference across all steps of the production process during a calendar year.*
 - iv) looking at each step in the production process, excluding the government, and summing the profits earned by firm during a calendar year.
31. According to the Fisher Equation,
- i) the real interest rate is equal to the difference between the nominal interest rate and the expected inflation rate.*
 - ii) the expected inflation rate is equal to the sum of nominal interest rate and the real interest rate.
 - iii) the nominal interest rate is equal to real interest rate.
 - iv) the nominal interest rate is equal to the real interest rate minus the expected inflation rate.
32. For Karen, the opportunity cost of producing one extra movie is 10 bushels of corn. Hal gives up 100 bushels of corn for each movie he produces. Suppose Karen and Hal decide to trade. Which of the following answers correctly identifies the person who has the comparative advantage in producing movies and a price that both would be willing to accept.
- i) Karen; 20 bushels of corn per movie*
 - ii) Karen; 5 bushels of corn per movie
 - iii) Hal; 20 bushels of corn per movie
 - iv) Hal; 5 bushels of corn per movie
33. Curt borrows \$2500 from Gene in 1995. Curt pays Gene back \$2750 in 1996. Compute the nominal interest rate.
- i) 250%
 - ii) 249%
 - iii) 10%*
 - iv) 110%