ECON 1100 - Basic Macroeconomics

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Quiz 1
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You will have <u>70 minutes</u> to complete the quiz. Every question has <u>ONLY ONE</u> correct answer. Please read carefully the text before answering.

1. What is the correct definition of GDP?

   (A) Market value of all final and intermediate goods and services produced within a country in a given period of time.

   (B) Real value of all final goods and services produced within a country in a given period of time.

   (C) Market value of all final goods and services produced within a country in a given period of time.

   (D) Market value of the final goods and services produced by a nation's economy in a given period of time.

2. An American buys a pair of shoes made in Italy. How do the U.S. national income accounts treat the transaction?

   (A) Net exports and GDP both rise.

   (B) Net exports and GDP both fall.

   (C) Net exports fall, while GDP is unchanged.

   (D) Net exports are unchanged, while GDP rises.

3. Joe produces wheat. It sells it to Anthony the baker for $2. Anthony makes two baguettes, worth 3$ **each** and a bagel, worth 1$. Gustav buys one baguette, while the other and the bagel remain on the shelf of Anthony's store to be sold later. What is GDP here?

   (A) $7

   (B) $9

   (C) $6

   (D) $3

4. Which is the largest component of GDP?

    (A) Consumption
    (B) Investment
    (C) Government purchases
    (D) Net exports

5. The Consumer Price Index (CPI) is designed to measure changes in the

    (A) spending patterns of urban consumers only
    (B) spending patterns of all consumers
    (C) wholesale price of manufactured goods
    (D) prices of all goods and services produced in an economy
    (E) cost of a select market basket of goods and services

6. The CPI measures approximately the same economic phenomenon as

    (A) nominal GDP.
    (B) real GDP.
    (C) the GDP deflator.
    (D) the unemployment rate.

7. If the CPI is 100 in year 1979 and 200 today, then $300 in 1980 has the same purchasing power as _ _ _ _ _ _ _ _ today.

    (A) $400
    (B) $300
    (C) $600
    (D) $800

8. In the case considered in the previous question, the inflation rate (i.e. the growth rate of the CPI) from 1979 to today is:

    (A) 80%
    (B) 90%
    (C) 100%
    (D) 40%

9. The population of Ibatè is 100 people: 45 work full-time, 10 work half-time but would prefer to work full-time, 30 are looking for a job, 10 would like to work but are so discouraged they have given up looking, 5 are not interested in working because they are full-time students, and 10 are retired. What is the number of unemployed?

    (A) 20
    (B) 30
    (C) 40
    (D) 45

10. Using the numbers in the preceding question, what is the size of Ibatè's labor force?

   (A) 45

   (B) 60

   (C) 75

   (D) 80

11. Which of the following individuals is considered officially unemployed?

   (A) Chris, who has not worked for more than three years and has given up looking for work

   (B) Kim, who is going to school full-time and is waiting until graduation before looking for a job

   (C) Pat, who recently left a job to look for a different job in another town

   (D) Leslie, who retired after turning 65 only five months ago

   (E) Lee, who is working 20 hours per week and is seeking full-time employment

12. The official unemployment rate underestimates the unemployment level in the economy because employment rate

   (A) ignores the duration of unemployment

   (B) ignores underemployed and discouraged workers

   (C) includes jobs created by the underground economy

   (D) excludes frictionally unemployed workers

13. In a competitive labor market, when unions become stronger (thus achieving higher real wages for unionized workers), the result is a(n) _____ in the quantity of labor supplied and a(n) _____ in the quantity of labor demanded.

   (A) increase, increase

   (B) increase, decrease

   (C) decrease, increase

   (D) decrease, decrease

14. In a closed economy without government activity, the total income is 1000$ and aggregate consumption amounts 600$. What is amount of saving?

   (A) $300

   (B) $400

   (C) $600

   (D) $1300

15. A country's government runs a budget deficit when which of the following occurs in a given year?

   (A) The amount of new loans to developing nations exceeds the amount of loans paid off by developing nations.
   (B) Government spending exceeds tax revenues.
   (C) The debt owed to foreigners exceeds the debt owed to the country's citizens.
   (D) The amount borrowed exceeds the interest payment on the national debt.

16. Consider the market for loanable funds. If shifts in the US tax system introduce incentive for households to save more out of the disposable income, the _____ curve for loanable funds would shift, driving the equilibrium interest rate _____.

   (A) supply, up
   (B) supply, down
   (C) demand, up
   (D) demand, down

17. In an open economy with government activity, when private saving increases, _____ is positively affected and _____ is negatively affected

   (A) Consumption, Government spending
   (B) Consumption, Investment
   (C) Investment, Consumption
   (D) Investment, Net export

18. If nominal GDP is $600, real GDP is $300, and the money supply is $100, then

   (A) the price level is 1/2, and velocity is 3.
   (B) the price level is 1/2, and velocity is 6.
   (C) the price level is 2, and velocity is 3.
   (D) the price level is 2, and velocity is 6.

19. The quantity identity $M \times V \equiv P \times Y$ has been interpreted by mainstream economic theory as a causal relation. More specifically, it postulates that in the long run the _____ will adjust to the _____

   (A) quantity of money, price level
   (B) price level, quantity of money
   (C) velocity of money, amount of output
   (D) quantity of money, amount of output

20. The quantity theory of money as stated in the previous question is based on the assumption that the _____ will be constant in the long run and that the _____ is determined by real variables only (such as physical capital, human capital, natural resources, and the available production technology).

   (A) quantity of money, price level
   (B) price level, quantity of money
   (C) velocity of money, amount of output
   (D) quantity of money, amount of output