

Econ 101-8 (Turchi) Practice Exam #3, Fall 2019

Midterm Examination on Thursday, November 14, 2019

****Review Session, **Monday**, November 11th, 7 p.m. (Gardner Hall Rm 008)

For Exam: Students are responsible for text material (**Chapters 21, 22, 24, 25-27, 28, 29, 30, 32**) relevant lecture material, and all handouts.

Bring to Exam: (1) #2 pencil with functioning eraser, (2) calculator (for numerical calculations only)

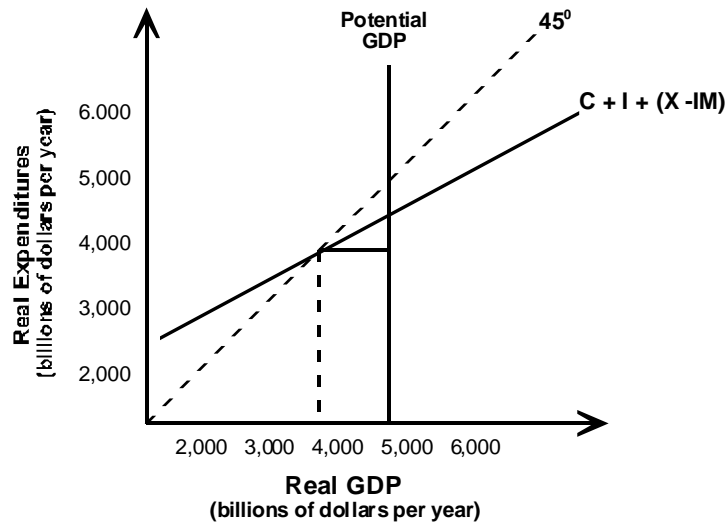
Economics 101

Professor Turchi

Practice Examination No. 3

- The GDP per capita of many developing countries is so much lower than that for the U.S. because
 - non-market activity is not included in GDP.
 - workers in developing countries are less productive than workers in the U.S.
 - inflation is higher in developing countries.
 - both a and b are correct.
- Frictional unemployment is caused by
 - large swings in the business cycle.
 - changes in technology that displace large numbers of workers.
 - the normal flow of people changing jobs.
 - labor force segmentation.
- Declining inflation means that prices are probably
 - decreasing.
 - constant.
 - increasing at a slower rate.
 - accelerating.
- Holding nominal wages constant, the real wage rate will be
 - increased by an increase in inflation.
 - constant, only nominal wages are affected by inflation.
 - reduced by an increase in inflation.
 - increasing faster than nominal wages if inflation is positive.
- At full employment,
 - everyone in the labor force has a job.
 - everyone in the labor force has a full-time job.
 - there may be unemployment, but, on average, everyone who has a job works full-time.
 - any unemployment is probably frictional or structural.
- Milk that Harris Teeter purchases from Maple View farm is not included in GDP because
 - this type of non-market activity is not included in GDP.
 - intermediate goods are not included in GDP.
 - black market activity is not included in GDP.
 - only durable goods are included in GDP.
- The best definition of aggregate demand is
 - consumption plus investment spending.
 - all goods sold to consumers plus inventories left over from previous years.
 - only the demand for consumption goods by consumers.
 - all final goods and services demanded from all sources.
- An increase in the real rate of interest is likely to _____ investment because _____.
 - decrease, it raises the cost of finance
 - decrease, existing capital is more productive
 - increase, profitability of capital will increase
 - increase, saving will increase and increase the affordability of capital
- The official definition of money supply that includes coins, paper money, traveler's checks, conventional checking accounts, and other checkable deposits at banks and savings institutions is called _____.
 - M₁
 - M₂
 - M₃
 - L

10. Suppose the public deposits \$1.5 billion in the banking system while the required reserve ratio is 10%. The maximum increase in the money supply will be \$_____billion and the maximum increase in deposits will be \$_____billion.
- a) 1.5,1.35 b) 13.5,15 c) 1.35,1.5 d) 15,13.5



11. In the above figure, at \$3,000 billion real GDP,
- a) spending falls short of output and firms will reduce production.
b) inventories are rising.
c) spending exceeds total output and inventories will fall.
d) aggregate demand equals aggregate supply
12. In the above figure,
- a) the 45° line marks all the points where real GDP equals real expenditure.
b) to the left of equilibrium GDP, inventories will fall.
c) to the right of equilibrium GDP, inventories will rise.
d) All of the above are correct.
13. Using the standard 45-degree diagram, how does a decrease in expectations of future income affect the expenditure schedule?
- a) It shifts the expenditure schedule upward. c) It increases the slope of the expenditure schedule.
b) It shifts the expenditure schedule downward. d) It decreases the slope of the expenditure schedule.
14. If the marginal propensity to consume (MPC) is $\frac{3}{4}$, then the multiplier is _____.
- a) 5 b) 4 c) 3 d) 2.5
15. Assume the marginal propensity to consume (MPC) is .8, and investment spending rises by \$25 billion. How much will equilibrium real GDP change?
- a) \$20 billion. b) \$25 billion. c) \$100 billion. d) \$125 billion.
16. Which one of the following might cause a recessionary gap?
- a) Interest rates are too low. c) Consumers spend more than they earn.
b) Price levels are too high. d) Businesses spend more than they save.
17. Given the consumption function $C = 46 + 0.8Y_d$, where the only taxes are poll taxes: $\bar{T} = 75$ and $Y = 820$, the level of Consumption is _____, and the level of Saving is _____.
- a) 702; 118 c) 642; 103
b) 702; 43 d) 642; 178

18. During the period from 2001 to 2006 there have been, and will be, several major cuts in personal income tax rates. What effect will these have on the value of the multiplier?
- a) They will decrease the value of the multiplier
 - b) They will have no effect on the multiplier.
 - c) They will increase the value of the multiplier.
 - d) The effect is uncertain.

Essay Questions

In 2000 the U.S. economy was operating at full employment, very close to the nation's production possibilities frontier. Then, the stock market began a rapid descent.

19. Assuming that the economy on the aggregate demand side was in equilibrium, explain how equilibrium aggregate demand would have been affected by the stock market decline. Be specific about which component(s) of aggregate demand would have been affected and use graphics to explain your answer.
20. Following the massacre of Sept. 11, 2001 surveys showed that consumer confidence has fallen sharply. Show how this decline would affect the aggregate demand situation you described in the previous question. Be specific about which components of aggregate demand will have been affected. Use graphics to illustrate your answer.
21. Show how the situation in the previous two questions is likely to affect the equilibrium *price level* and *equilibrium GDP level* in comparison with the situation that existed last year. Use graphics to explain your answer.
22. Show how the economy might self-correct to eliminate the current situation. What factors might impede this self-correction? Use graphics to illustrate your answer.

Answers to Multiple Choice Questions:

Question #	Answer	Question #	Answer
1	d	10	b
2	c	11	c
3	c	12	d
4	c	13	b
5	d	14	b
6	b	15	d
7	d	16	b
8	a	17	c
9	a	18	c