

1. Choose the correct statement:

- A. Nominal GDP and real GDP data series never cross
 - B. To evaluate and compare economic growth between countries, it is necessary to exclude the price effect from the data series
 - C. If nominal GDP increases by a lot, that means that the country becomes more economically developed
 - D. Real GDP excludes the quantity effect from the data series
-

2. Gross domestic product is _____.

- A. the factor cost of all the consumption goods and services produced by all citizens of a country in a given time period
- B. the market value of all the consumption goods and services produced within a country in a given time period
- C. the market value of all the final goods and services produced within a country in a given time period
- D. the factor cost of all the final goods and services produced by all citizens of a country in a given time period

A bakery uses flour to produce bread. When calculating GDP, we include _____, because when we add the value of the flour to the value of the loaf of bread to calculate GDP, the result is _____.

- A. only the value of the bread sold in a store; double counting
 - B. both the value of the bread sold in a store and the value of the flour used to produce the bread; double counting
 - C. only the value of the flour used to produce the bread; double counting
 - D. both the value of the bread sold in a store and the value of the flour used to produce the bread; the true value of the economy's output
-

3. Gross domestic product can be measured in two ways:
By the total _____ or the total _____.

- A. expenditure on all intermediate goods; expenditure on all final goods
- B. expenditure on goods and services by consumers; expenditure on goods and services by the government and the rest of the world
- C. labor income earned by people living in a country; income earned by citizens of a country living elsewhere in the world
- D. expenditure on goods and services; income earned producing goods and services

Aggregate income earned is equal to the total amount paid for _____ to produce final goods and services.

Aggregate expenditure is equal to _____.

- A. labor; $C + I + G + X + M$
- B. the factors of production used; $C + I + G + (X - M)$
- C. labor; $C + I + G + (M - X)$
- D. the factors of production used; $C + I + G + (M - X)$

And because firms pay out as incomes everything they receive from the sale of their output, aggregate income equals aggregate expenditure.

- A. True
 - B. False
-

4. Classify each of the following items as a final good or service or an intermediate good or service and identify which is a component of consumption expenditure, investment, or government expenditure on goods and services:

Item 1. New cars bought by Hertz, the car rental firm

Item 2. The purchase of a new limo for the president

Item 3. A haircut bought by a student

Item 4. Newsprint bought by *USA Today*

Item 1 is _____ and item 2 is _____.

- A. a final good that is investment;
a final good that is investment
- B. a final good that is consumption expenditure;
a final good which is government expenditure
- C. a final good that is investment;
a final good which is government expenditure
- D. a final good that is consumption expenditure;
a final good that is investment

Item 3 is _____ and item 4 is _____.

- A. a final good that is consumption expenditure;
an intermediate good
- B. an intermediate good;
an intermediate good
- C. a final good that is consumption expenditure;
a final good that is investment
- D. an intermediate good;
a final good that is investment

5. Classify each of the following items as a final good or an intermediate good, and identify which is a component of consumption expenditure, investment, or government expenditure on goods and services:

Item 1. Banking services bought by Google

Item 2. A Starbucks grande mocha frappuccino bought by a student

Item 3. A new battle ship bought by the U.S. navy

Item 4. A new airplanes bought by United Airlines

Item 1 is _____ and item 2 is _____.

- A. a final good that is investment;
an intermediate good
- B. an intermediate good;
a final good that is consumption expenditure
- C. an intermediate good;
an intermediate good
- D. a final good that is investment;
a final good that is consumption expenditure

Item 3 is _____ and item 4 is _____.

- A. a final good which is government expenditure;
a final good that is consumption expenditure
- B. a final good that is investment;
a final good that is consumption expenditure
- C. a final good which is government expenditure;
a final good that is investment
- D. a final good that is investment;
a final good that is investment

6. True or false:

The expenditure approach of calculating GDP is better than the income approach.

- True
- False

7. The firm that printed your textbook bought the paper from XYZ Paper Mills.

This purchase of paper _____ part of GDP because the paper is _____ good.

- A. is not; an intermediate
- B. is; an intermediate
- C. is not; a final
- D. is; a final

The value of the paper is counted in GDP as _____.

- A. an intermediate good
 - B. part of the value of the textbook
 - C. an import because most paper is imported into the United States
 - D. investment
-

8. U.S. gross domestic product is the market value of all the _____ produced _____ in a given time period.

- A. final goods and services; by Americans anywhere in the world
 - B. final goods and services; within the United States
 - C. goods; by American firms located anywhere in the world
 - D. goods; within the United States
-

9. _____ good is an item that is bought by its final user during a specified time period.

_____ good is an item that is produced by one firm, bought by another firm, and used as a component of a final good or service.

- A. A finished; An incomplete
 - B. A final; An intermediate
 - C. A specified; A component
 - D. A specific; A nonspecific
-

10. Aggregate expenditure in the United States is equal to consumption expenditure plus investment _____.

- A. plus government expenditure plus imports
 - B. plus government expenditure plus exports
 - C. plus government expenditure plus net exports
 - D. minus government expenditure minus imports
-

11. _____ is an example of U.S. consumption expenditure.

- A. The purchase of a new computer system by JFK Airport's air traffic control
 - B. Your purchase of a model car kit
 - C. The purchase of office supplies for a government office
 - D. The purchase of a flight on Delta Airlines by a resident of Canada
-

12. The goods and services that we sell to people in other countries are _____.

The goods and services that we buy from people in other countries are _____.

- A. exports; imports;
- B. net exports; net imports
- C. net imports; net exports
- D. imports; exports;

The value of exports of goods and services minus the value of imports of goods and services is _____.

- A. called net imports
 - B. always a negative value in the U.S. economy
 - C. called net exports
 - D. always a positive value in the U.S. economy
-

13. During a year, a firm's depreciation is \$800 and gross investment is \$4,000.

The firm's net investment is _____.

- A. \$7,200
 - B. \$3,200
 - C. \$4,000
 - D. \$800
-

14. Aggregate income in an economy in 2014 is \$780 billion. Saving is \$20 billion and imports are \$25 billion.

Aggregate expenditure in the economy in 2014 is _____.

- A. \$825 billion
 - B. \$780 billion
 - C. \$800 billion
 - D. \$755 billion
-

15. In 2010, U.S. exports were \$1,840 billion and imports were \$2,357 billion.

What was the value of net exports?

The value of net exports in 2010 was _____ billion dollars.

>>> If the answer is negative, use a minus sign. If the answer is positive, do not use a plus sign.

16. Football production process:

Participant of the production process	Cost of materials	Value of sales
<i>Cowhide supplier</i>	\$ 0	\$ 10
<i>Tanning firm</i> uses a special tanning process to tan the cowhide and cuts it into a bend	\$ 10	\$ 12
<i>Bend cutting firm</i> uses a hydraulically-driven clicking machine to cut four panels into the precise shape required at the same time and runs panels through a skiving machine in order to reduce them to a predetermined thickness and weight	\$ 12	\$ 20
<i>Lining firm</i> sews the lining and panel together using an industrial size and strength version of a home sewing machine, applies a facing to those areas that will carry the lacing holes as well as the hole for the inflating needle, punches the holes, sews the four panels together by a hot-wax lock stitch machine to ensure that the seams are especially durable, and turns the ball right side out	\$ 20	\$ 25
<i>Lacing firm</i> inserts a two-ply butyl rubber bladder and laces the ball, which is then inflated with a pressure of not less than 12.5 lb (6 kg) but no more than 13.5 lb (6.1 kg)	\$ 25	\$ 30
<i>Branding and shipping firm</i> brands the ball with the manufacturer's name and number, conducts a final inspection, and boxes and ships the balls to designated schools and ball clubs	\$ 30	\$ 35

TOTALS

What is the total value added?

- A. 35
 B. 30
 C. 132
 D. 97

17. Net exports increase when _____.

- A. exports decrease and imports increase
 B. exports increase by more than imports increase
 C. consumption expenditure increases
 D. consumption expenditure decreases

18. Choose the correct equation.

- A. Net investment = Gross investment + Depreciation
 B. Net investment = Gross investment - Depreciation
 C. Net investment - Depreciation = Gross investment
 D. Net investment - Gross investment = Depreciation

19. The purpose of the value added approach is:

- A. to add the value of all the materials used in the production process to the value of the final good
 - B. to illustrate how valuable every step of a production process is
 - C. to eliminate double counting
-

20. Which of the following is an example of a **final good or service**?

- A. PCL construction company buys Lafarge cement.
 - B. Dan bought a Toyota Camry.
 - C. GM buys Firestone tires.
 - D. Dell buys Intel chips.
-

21. The expenditure approach to measuring GDP sums together _____, and the largest component is _____.

- A. compensation of employees and net operating surplus; compensation of employees
 - B. net domestic income at factor cost, indirect taxes less subsidies, and depreciation; net domestic income at factor cost
 - C. consumption expenditure, investment, government expenditure on goods and services, and net exports; government expenditure on goods and services
 - D. consumption expenditure, investment, government expenditure on goods and services, and net exports; consumption expenditure
-

22. The shoelaces that come with the sneakers _____ counted as _____ good. However, if you rip one of the laces and have to buy the same shoelaces, the new shoelaces _____ counted as _____ good.

- A. are; a final; are not; an intermediate
 - B. are not; a final; are; a final
 - C. are; a final; are; a final
 - D. are not; a final; are not; a final
-

23. The income approach to measuring GDP sums together _____, which equals net domestic income at factor cost.

- A. compensation of employees, net interest, rental income, corporate profits, and proprietors' income
- B. compensation of employees, direct taxes, and consumption of fixed capital
- C. consumption expenditure, investment, government expenditure on goods and services, and net exports
- D. compensation of employees, net interest, rental income, and proprietors' income

Net domestic income at factor cost (1) _____ indirect taxes less subsidies

(2) _____ depreciation gives GDP (income approach).

- (1) minus (2) minus
 plus plus

24. Nominal GDP is _____.

Real GDP is _____.

- A. the value of final goods and services produced in a given year when valued at the prices of a reference base year; calculated as the quantity produced in the base year multiplied by the prices that prevailed in the given year
- B. the value of final goods and services produced in a given year when valued at the prices of a reference base year; the value of the final goods and services produced in a given year valued at the prices of that year
- C. the value of the final goods and services produced in a given year valued at the prices of that year; a more precise name for GDP
- D. a more precise name for GDP; the value of final goods and services produced in a given year when valued at the prices of a reference base year

25. An economy produces only digital cameras, chocolate bars, and watches

The table gives the quantities produced and prices in 2013 and 2014. The base year is 2013.

What is real GDP in 2014 in terms of the base-year prices?

Real GDP in 2014 in terms of base-year prices is \$ _____.

In 2013		
Item	Quantity	Price
Digital cameras	9	\$1 each
Chocolate bars	9	\$2 each
Watches	1	\$2 each

In 2014		
Item	Quantity	Price
Digital cameras	3	\$6 each
Chocolate bars	4	\$9 each
Watches	5	\$8 each

26. To compare economic performance of countries, it is best to use GDP data in _____ terms because _____.
- A. total; total country's output is the only true measure of economic performance
 - B. per capita; if the population differs between countries and overtime, the data series for total GDP could be misleading
 - C. total; because per capita comparisons imply that people within a country equally exploit the benefits of high GDP, and that does not seem realistic
 - D. per capita; the bigger the population of a country, the less productive this country is

27. The table shows items of income and expenditure in the United Kingdom in 2005.

Calculate GDP.

GDP in the United Kingdom in 2005 equals £ _____ billion.

There is sufficient information given in the table to calculate GDP using the (1) _____ approach.

What items would you need in addition to the items given in the table to complete your calculation of GDP using the income approach?

- A. imports
- B. indirect taxes only
- C. indirect taxes less subsidies
- D. subsidies only

- (1) income
 expenditure

Item	Billions of pounds
Wages	685
Consumption expenditure	791
Other factor income	273
Investment	209
Government expenditure	267
Net exports	- 44
Depreciation	366

28. Real-Time Data Analysis Exercise*

Use the data in the table to the right, which lists some macroeconomic data for the United States in the second quarter of 2015.

Calculate U.S. GDP in the second quarter of 2015.

U.S. GDP in the second quarter of 2015 was \$ _____ billion.

>>> Answer with a whole number.

Explain the approach (expenditure or income) that you used to calculate GDP.

I calculated real GDP by summing the components of aggregate _____, so I used the _____ approach.

- A. expenditure; expenditure
- B. income; income
- C. some expenditure items and some income items; mixed
- D. income and expenditure; income and expenditure

Item	Billions of dollars
<u>Wages paid to labor</u> ¹	9,615
<u>Consumption expenditure</u> ²	12,228
<u>Net operating surplus</u> ³	3,565
<u>Investment</u> ⁴	3,026
<u>Government expenditure</u> ⁵	3,179
<u>Net exports</u> ⁶	- 519
<u>Depreciation</u> ⁷	2,804

*Real-time data provided by Federal Reserve Economic Data (FRED), Federal Reserve Bank of Saint Louis.

[Click here to see the data in FRED.](#)⁸

1: Definition

Wages paid to labor, called **compensation of employees** in the National Income and Product Accounts, is the wages and salaries that workers receive plus taxes withheld on earnings, plus fringe benefits such as Social Security and pension fund contributions.

2: Definition

Consumption expenditure, called personal consumption expenditures in the National Income and Product Accounts, is the expenditure by households on consumption goods and services.

3: Definition

Net operating surplus is the sum of all factor incomes except labor income. It has four components: net interest, rental income, corporate profits, and proprietors' income.

4: Definition

Investment, called gross private domestic investment in the National Income and Product Accounts, is the purchase of new capital goods and additions to inventories.

5: Definition

Government expenditure, called government consumption expenditures and gross investment in the National Income and Product Accounts, is expenditure by all levels of government on goods and services.

6: Definition

Net exports is the value of exports of goods and services minus the value of imports of goods and services.

7: Definition

Depreciation, called **consumption of fixed capital** in the National Income and Product Accounts, is the decrease in value of capital that results from wear and tear and obsolescence.

8: Definition

Wages paid to labor⁹

Consumption expenditure¹⁰

Investment¹¹

Government expenditure¹²

Net exports¹³

Depreciation¹⁴

9: <http://research.stlouisfed.org/fred2/series/COE>

10: <http://research.stlouisfed.org/fred2/series/PCEC>

11: <http://research.stlouisfed.org/fred2/series/GPDI>

12: <http://research.stlouisfed.org/fred2/series/GCE>

13: <http://research.stlouisfed.org/fred2/series/NETEXP>

14: <http://research.stlouisfed.org/fred2/series/COFC>

29. Choose the correct statement.

- A. Real GDP is just a more precise name for GDP.
 - B. To isolate the increase in production from the rise in prices, we distinguish between real GDP and nominal GDP.
 - C. We measure the change in production by comparing nominal GDP in one year with nominal GDP in another year.
 - D. Because GDP in 2013 is greater than GDP in 2012, it must be the case that we produced more in 2013 than we produced in 2012.
-

30. The table gives some of the items in the U.S. National Income and Product Accounts in 2004.

What is the value of U.S. GDP (income approach) in 2004?

The value of U.S. GDP (income approach) in 2004 is \$ _____ trillion.

>>> Answer to 1 decimal place.

Item	Amount (trillions of dollars)
Compensation of employees	6.7
Consumption expenditure	8.2
Indirect taxes less subsidies	0.8
Other factor incomes	2.6
Depreciation	1.3
Government expenditure on goods and services	2.2
Net exports	- 0.6

31. **Real GDP** is the value of the _____ goods and services produced in a given year expressed in terms of the prices in _____ year.

Nominal GDP is the value of the _____ goods and services produced in a given year expressed in terms of the prices of _____ year.

- A. final; that same;
intermediate; a base
- B. final; a base;
final; that same
- C. final; that same;
final; a base
- D. intermediate; a base;
final; that same

32. True or false:

Exclusion of home production from GDP calculations is one of the significant limitations of the real GDP.

- True
- False

1. B.

To evaluate and compare economic growth between countries, it is necessary to exclude the price effect from the data series

2. C. the market value of all the final goods and services produced within a country in a given time period

A. only the value of the bread sold in a store; double counting

3. D. expenditure on goods and services; income earned producing goods and services

B. the factors of production used; $C + I + G + (X - M)$

A. True

4. C. a final good that is investment; a final good which is government expenditure

A. a final good that is consumption expenditure; an intermediate good

5. B. an intermediate good; a final good that is consumption expenditure

C. a final good which is government expenditure; a final good that is investment

6. False

7. A. is not; an intermediate

B. part of the value of the textbook

8. B. final goods and services; within the United States

9. B. A final; An intermediate

10. C. plus government expenditure plus net exports

11. B. Your purchase of a model car kit

12. A. exports; imports;

C. called net exports

13. B. \$3,200

14. B. \$780 billion

15. - 517

16. A. 35
-
17. B. exports increase by more than imports increase
-
18. B. Net investment = Gross investment – Depreciation
-
19. C. to eliminate double counting
-
20. B. Dan bought a Toyota Camry.
-
21. D. consumption expenditure, investment, government expenditure on goods and services, and net exports; consumption expenditure
-
22. B. are not; a final; are; a final
-
23. A. compensation of employees, net interest, rental income, corporate profits, and proprietors' income
(1) plus
(2) plus
-
24. D. a more precise name for GDP;
the value of final goods and services produced in a given year when valued at the prices of a reference base year
-
25. 21
-
26. B.
per capita; if the population differs between countries and overtime, the data series for total GDP could be misleading
-
27. 1,223
(1) expenditure
C. indirect taxes less subsidies
-
28. 17,914
A. expenditure; expenditure
Answers given reflect the data available at the time the exam was printed, and thus are subject to change.
-
29. B.
To isolate the increase in production from the rise in prices, we distinguish between real GDP and nominal GDP.
-
30. 11.4
-

31. B. final; a base;final; that same

32. True

1. The economy of the Linebacker

Year	Entrance to the Linebacker		A glass of coke at the Linebacker	
	Q	P	Q	P
2012	100	\$10	50	\$1
2013	90	\$15	50	\$1.5
2014	120	\$12	30	\$1.5

Using 2012 as the base year, calculate the GDP deflator for each year. Round to the first decimal.

The GDP deflator was _____ in 2012, _____ in 2013, and _____ in 2014.

2. The price level is _____.

- A. the average level of prices paid by urban consumers
 - B. equal to the inflation rate
 - C. the average level of prices paid by urban consumers for all goods excluding food and energy
 - D. the average level of prices, and the value of money
-

3. Choose the statement about the Consumer Price Index that is *incorrect*.

- A. The CPI is measured by the Bureau of Labor Statistics.
- B. The CPI is a measure of the average of the prices paid by urban consumers for a fixed basket of consumer goods and services.
- C. The CPI is defined to equal 1.00 for a period called the reference base period.
- D. The CPI is calculated monthly.

CPI = _____.

- A. $(\text{Cost of CPI basket at current-period prices} \div \text{Cost of CPI basket at base-period prices}) \times 100$
 - B. $[(\text{Cost of CPI basket at current-period prices} - \text{Cost of CPI basket at base-period prices}) \div \text{Cost of CPI basket at current-period prices}] \times 100$
 - C. $[(\text{Cost of CPI basket at base-period prices} - \text{Cost of CPI basket at current-period prices}) \div \text{Cost of CPI basket at current-period prices}] \times 100$
 - D. $(\text{Cost of CPI basket at base-period prices} \div \text{Cost of CPI basket at current-period prices}) \times 100$
-

4. Choose the statement that is *incorrect*.

- A. When the quality of a good improves over time, the CPI does not include the portion of the price to the higher quality in its calculation.
 - B. The introduction of new goods introduces an upward bias into the CPI and its inflation rate.
 - C. The outlet substitution bias injects an upward bias into the CPI.
 - D. The commodity substitution bias injects an upward bias into the CPI.
-

5. The people on Coral Island buy only juice and cloth. The CPI basket contains the quantities bought in 2014.

The average household spent \$32 on juice and \$56 on cloth in 2014 when the price of juice was \$2 a bottle and the price of cloth was \$7 a yard.

In the current year, 2014, juice is \$5 a bottle and cloth is \$8 a yard.

Calculate the CPI basket and the percentage of the household's budget spent on juice in 2014.

The CPI basket is _____ (1) _____ and _____ (2) _____.

The percentage of the household's budget spent on juice in 2014 is _____ percent.

>>> Answer to 1 decimal place.

- (1) dollars worth of juice (2) dollars worth of cloth
 bottles of juice yards of cloth

6. The table shows three years of CPI data.

Calculate the inflation rate for the year ended June 2007 and for the year ended June 2008.

Did inflation increase or decrease between June 2007 and June 2008?

The inflation rate for the year ended June 2007 is _____ percent.

>>> Answer to 1 decimal place.

>>> If your answer is negative, include a minus sign. If your answer is positive, do not include a plus sign.

The inflation rate for the year ended June 2008 is _____ percent.

>>> Answer to 1 decimal place.

>>> If your answer is negative, include a minus sign. If your answer is positive, do not include a plus sign.

Between June 2007 and June 2008, inflation

(1) _____.

- (1) remained the same
 decreased
 increased

Date	CPI
June 2006	201.9
June 2007	207.2
June 2008	217.4

7. The GDP deflator uses _____ which _____ the _____.

- A. GDP basket; has less goods than; CPI basket
 B. CPI basket; is the same as; GDP basket
 C. GDP basket; is different from; CPI basket
 D. GDP basket; is the same as; CPI basket

8. Real-Time Data Analysis Exercise*

The BLS reported the CPI¹ data shown in the table to the right.

Calculate the inflation rates for the years ended October 2014 and October 2015.

The inflation rate in the year ended October 2014 was _____ percent per year.

The inflation rate in the year ended October 2015 was _____ percent per year.

How did the inflation rate change in the year ended October 2015?

The inflation rate _____ .

- A. didn't change
- B. increased
- C. decreased

Date	CPI
October 2013	233.9
October 2014	237.8
October 2015	238.0

*Real-time data provided by Federal Reserve Economic Data (FRED), Federal Reserve Bank of Saint Louis.
[Click here to see the data in FRED.](#)²

1: Definition

The **CPI** or **Consumer Price Index** is a measure of the average of the prices paid by urban consumers for a fixed basket of goods and services.

2: <http://research.stlouisfed.org/fred2/series/CPIAUCSL>

9. A typical family on Sandy Island consumes only juice and cloth.

Last year, which was the base year, the family spent \$6 on juice and \$18 on cloth. In the base year, juice was \$3 a bottle and cloth was \$2 a length.

This year, juice is \$8 a bottle and cloth is \$10 a length.

What is the CPI basket? What is the CPI and the inflation rate in the current year?

The CPI basket is _____ bottles of juice and _____ lengths of cloth.

The CPI in the current year is _____ .

>>> Answer to 1 decimal place.

The inflation rate in the current year is _____ percent.

>>> Answer to 1 decimal place.

10. Amazon.com agreed to pay its workers \$20 an hour in 1999 and \$27 an hour in 2001. The CPI in 1999 was 166 and in 2001 it was 180.

Calculate the real wage rate in each year (to the nearest cent). Did these workers really get a pay raise between 1999 and 2001?

>>> Answer to 2 decimal places.

The real wage rate in 1999 was \$ _____.

The real wage rate in 2001 was \$ _____.

Because the real wage rate in 2001 is (1) _____ the real wage rate in 1999, the workers

(2) _____ really get a raise between 1999 and 2001.

- (1) equal to (2) didn't
 greater than did
 less than

11. The IMF *World Economic Outlook* reports the price level data (2000 = 100) given in the table.

The region with the highest inflation rate in 2010 is _____.

The region with the highest inflation rate in 2011 is _____.

- A. Japan; the United States
 B. the United States; Japan
 C. the United States; the United States
 D. the Euro area; Japan

Describe the path of the price level in Japan.

The price level _____.

- A. decreased in both years
 B. remained unchanged in 2010 and rose in 2011
 C. rose in both years
 D. stayed constant

Region	2009	2010	2011
United States	217.2	220.9	227.5
Euro area	120.0	121.9	125.3
Japan	100.0	99.6	99.4

12. **Real-Time Data Analysis Exercise***

The table provides information about the U.S. CPI for October each year from 2009 to 2015.

The numbers in the table are (1) _____.

The reference base year for the CPI is

(2) _____.

The CPI for October 2015 tells us that since the reference base year, the price level has increased by _____ percent.

>>> Answer to the nearest 1 decimal place.

In the year to October 2015, the inflation rate measured by the CPI was _____ percent.

>>> Answer to the nearest 1 decimal place.

- (1) inflation rates (2) 1982 – 1984 1995
 price levels 2005 – 2006 2014 – 2015
 2000
 2015

The U.S. CPI

Month – year	CPI
Oct – 2009	216.5
Oct – 2010	219.0
Oct – 2011	226.8
Oct – 2012	231.7
Oct – 2013	233.9
Oct – 2014	237.8
Oct – 2015	238.0

*Real-time data provided by Federal Reserve Economic Data (FRED), Federal Reserve Bank of Saint Louis.

13. **Real-Time Data Analysis Exercise***

The table provides information about the U.S. CPI for October each year from 2009 to 2015.

Between October 2009 and October 2015, the price level _____, which means that we experienced _____.

- A. decreased; deflation
 B. didn't change; neither inflation nor deflation
 C. increased; inflation
 D. increased; rising inflation

The U.S. CPI

Month – year	CPI
Oct – 2009	216.5
Oct – 2010	219.0
Oct – 2011	226.8
Oct – 2012	231.7
Oct – 2013	233.9
Oct – 2014	237.8
Oct – 2015	238.0

*Real-time data provided by Federal Reserve Economic Data (FRED), Federal Reserve Bank of Saint Louis.

14. Once a month, the Bureau of _____ Statistics calculates the Consumer Price Index, which is a measure of the _____ consumers for a fixed basket of consumer goods and services.

- A. Labor; average of the prices paid by urban
 B. Index; discounted prices paid by all
 C. Price; average of the prices paid by urban
 D. Price; prices paid by all

15. True or false:

Real wages don't matter - all we should care about are nominal wages

- True
 - False
-

16. The CPI tells us _____.

- A. the price level in a given period expressed as a percentage of the price level in the base period, which is by definition equal to 100
 - B. the price level in a given period expressed as a percentage of the price level in the base period, which is by definition equal to zero
 - C. the inflation rate in a given period compared to the inflation rate in the base period, which is by definition equal to zero
 - D. the inflation rate in a given period compared to the inflation rate in the base period, which is by definition equal to 100
-

17. In the United States, the CPI basket consists of items that _____ .

_____ has the greatest weight in the CPI basket.

- A. an average urban household buys; Housing
 - B. *all* households buy; Transportation
 - C. a middle-income household buys; Education and communication
 - D. an average American household buys; Medical care
-

18. GDP deflator

- A. measures how much the prices of goods and services have risen since the base year
 - B. is always equal to 100 in the base year
 - C. can be used to separate the price effect and the real value effect
 - D. all of the above
-

19. The CPI in 2013 is 150 and the CPI in 2014 is 156.0.

The inflation rate in 2014 is _____ percent.

>>> Answer to 1 decimal place.

The inflation rate in 2014 _____.

- A. might be higher, lower, or the same as in 2013
 - B. is higher than in 2013 because the price level is greater than 100
 - C. is lower than in 2013 because the 2014 price level is less than twice the 2013 price level
 - D. is higher than in 2013 because the price level has increased
-

20. The main sources of bias in the CPI are _____.

- A. anti-fur bias, vegetarian bias, and lifestyle bias
- B. designer name bias and generic product bias
- C. big box store bias, corner store bias, mall bias, and brand name bias
- D. new goods bias, quality change bias, commodity substitution bias, and outlet substitution bias

The bias in the CPI is a problem because _____.

- A. it discourages people from looking hard enough for a bargain
 - B. it causes too much commodity substitution
 - C. it distorts wage agreements linked to the CPI
 - D. it causes too little commodity substitution
-

21. Choose the statement that is *incorrect*.

- A. An unexpected inflation or deflation redistributes income and wealth.
 - B. An unexpected inflation or deflation brings lower real GDP and employment.
 - C. An unexpected inflation or deflation diverts resources from production.
 - D. An unexpected inflation or deflation has no effect on the economy.
-

22. The reference base period for the CPI is 1982-1984.

In June 2014, the CPI was 238.3.

This number tells us that the _____ of the prices paid by urban consumers for a fixed basket of consumer goods and services was _____.

- A. inflation rate; 138.3 percent per year
 - B. average; 238.3 percent higher in June 2014 than the average of 1982-1984
 - C. average; 138.3 percent higher in June 2014 than the average of 1982-1984
 - D. inflation rate; 238.3 percent per year
-

23. GDP basket doesn't include:

- A. train carts produced in Michigan
 - B. party planning services from a company based in California
 - C. haircuts
 - D. Dell computer that you order directly from China
-

24. In 2013 and in 2014, consumers in Dexter consumed only books and pens.

The prices and quantities for 2013 and 2014 are listed in the table.

The reference base period for Dexter's CPI is 2013 and 2013 is also the year of the Consumer Expenditure Survey.

The CPI in 2014 is _____.

- A. 148.8
 B. 61.0
 C. 100.0
 D. 67.2

Item	2013		2014	
	Price	Quantity	Price	Quantity
Books	\$3	2	\$8	5
Pens	\$7	5	\$9	10

25. The **price level** is the _____.

- A. percentage change in prices
 B. sum of all prices
 C. value of money
 D. average level of prices

26. The **inflation rate** is the percentage change in the _____ from one year to the next.

Deflation is a situation in which the _____ is _____ and the inflation rate is _____.

- A. interest rate;
interest rate; rising; positive
 B. price level;
input cost; rising; positive
 C. interest rate;
interest rate; falling; negative
 D. price level;
price level; falling; negative

27. **Hyperinflation** is an inflation rate of _____ or higher that grinds the economy to a halt and causes a society to collapse.

- A. 20 percent a year
 B. 50 percent a month
 C. 50 percent a year
 D. 20 percent a month

28. True or false:

Relatively to 1982, CPI increased by more than the GDP deflator did.

- True
 False

1. 100
150
120.7
-
2. D. the average level of prices, and the value of money
-
3. C. The CPI is defined to equal 1.00 for a period called the reference base period.
A. $(\text{Cost of CPI basket at current-period prices} \div \text{Cost of CPI basket at base-period prices}) \times 100$
-
4. A.
When the quality of a good improves over time, the CPI does not include the portion of the price rise attributable to the higher quality in its calculation.
-
5. 16
(1) bottles of juice
8
(2) yards of cloth
36.4
-
6. 2.6
4.9
(1) increased
-
7. C. GDP basket; is different from; CPI basket
-
8. 1.7
0.1
C. decreased
Answers given reflect the data available at the time the exam was printed, and thus are subject to change.
-
9. 2
9
441.7
341.7
-
10. 12.05
15.00

(1) greater than

(2) did

11. C. the United States; the United States

A. decreased in both years

12. (1) price levels

(2) 1982 – 1984

138.0

0.1

Answers given reflect the data available at the time the exam was printed, and thus are subject to change.

13. C. increased; inflation

Answers given reflect the data available at the time the exam was printed, and thus are subject to change.

14. A. Labor; average of the prices paid by urban

15. False

16. A.

the price level in a given period expressed as a percentage of the price level in the base period, which is by definition equal to 100

17. A. an average urban household buys; Housing

18. D. all of the above

19. 4.0

A. might be higher, lower, or the same as in 2013

20. D. new goods bias, quality change bias, commodity substitution bias, and outlet substitution bias

C. it distorts wage agreements linked to the CPI

21. D. An unexpected inflation or deflation has no effect on the economy.

22. C. average; 138.3 percent higher in June 2014 than the average of 1982-1984

23. D. Dell computer that you order directly from China

24. A. 148.8

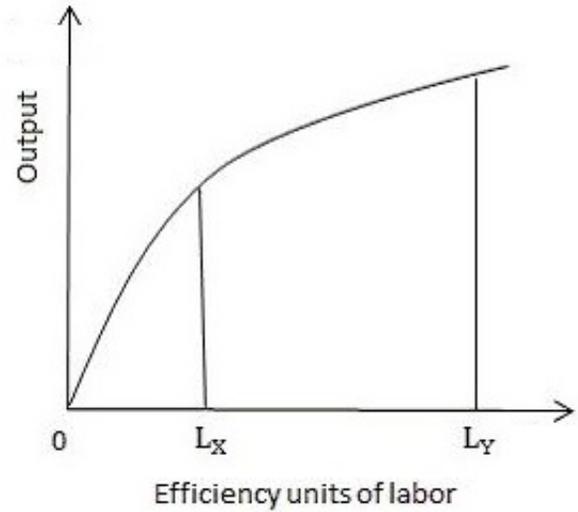
25. D. average level of prices

26. D. price level;price level; falling; negative

27. B. 50 percent a month

28. True

- *1. Country X and Country Y have identical aggregate production functions. The amount of capital stock available to each country is also equal. However, Country X has L_X amount of labor supply while Country Y has L_Y amount of labor supply.



What does the slope of the aggregate production function imply?

- A. Increasing returns to scale
- B. Diminishing marginal product of capital
- C. Decreasing returns to scale
- D. Diminishing marginal product of labor

2. Economic growth is _____.

- A. the annual percentage change in the quantity of money
- B. the annual percentage change in labor productivity
- C. the expansion of production possibilities
- D. the return to full employment in an expansion phase of the business cycle

Growth rates are calculated in a similar manner for all variables.

Real GDP growth rate = $[(\text{Real GDP in } ______ \text{ year} - \text{Real GDP in } ______ \text{ year}) \div \text{Real GDP in } ______ \text{ year}] \times 100$.

- A. previous; current; previous
- B. current; previous; current
- C. previous; current; current
- D. current; previous; previous

3. Choose the statement that is *incorrect*.

- A. Real GDP per person equals real GDP divided by the population.
- B. Real GDP per person growth rate is approximately equal to the real GDP growth rate minus the population growth rate.
- C. The standard of living depends on real GDP per person.
- D. Real GDP per person grows whenever real GDP grows.

4. China's real GDP per person was 11,480 yuan in 2011 and 12,515 yuan in 2012. India's real GDP per person was 45,045 rupees in 2011 and 47,995 rupees in 2012.

The population of China is growing at 1 percent a year and the population of India is growing at 1.4 percent a year.

Calculate the growth rate of real GDP in each country.

The growth rate of real GDP in China is _____ percent.

>>> Answer to 1 decimal place.

The growth rate of real GDP in India is _____ percent.

>>> Answer to 1 decimal place.

- *5. Total efficiency units of labor in an economy increases if _____.

- A. each worker becomes more productive
- B. each worker earns a lower wage
- C. the amount of capital available to each worker diminishes
- D. the average number of hours worked by each worker decreases

6. The table provides some data on real GDP and the population of Sudico in 2010 and 2011.

Year	Real GDP (billions of pesos)	Population (billions)
2010	330,000	550
2011	396,000	600

What is the growth rate of real GDP in Sudico in 2011?

What is the growth rate of real GDP per person in Sudico in 2011?

>>> Answer as a whole number.

The growth rate of real GDP in Sudico in 2011 is _____ percent.

The growth rate of real GDP per person in Sudico in 2011 is _____ percent.

- *7. Which of the following is an example of a physical capital in agricultural production?

- A. A road
- B. A tractor
- C. A farmer
- D. A common canal

8. Over the past 100 years, the average growth rate of U.S. real GDP per person is _____ percent.

Over the past 100 years, growth was most rapid during the _____ and slowest during the _____.

- A. 1960s; Great Depression
- B. 2000s; 1920s
- C. 1960s; 1980s
- D. 1990s; 1970s

*9. Which of the following is likely to increase the productivity of workers in an economy?

- A. An increase in the number of years of training that each worker receives
- B. The discovery of an oil field
- C. An increase in the aggregate price level
- D. An increase in the labor force participation rate in the economy

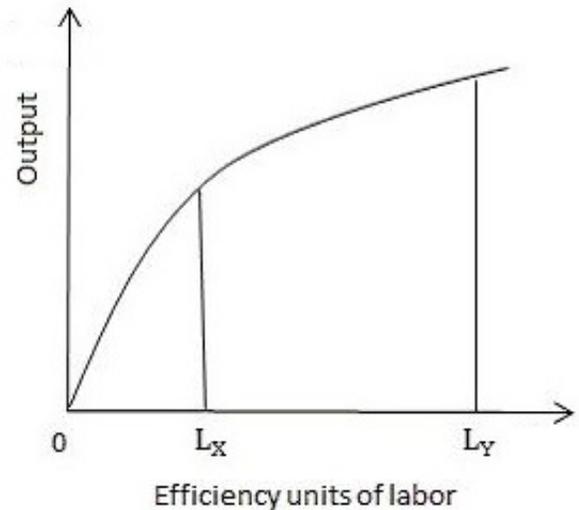
*10. Country A has a lower stock of capital than Country B, but the supply of labor in both the countries is equal.

- A. The increase in output due an additional unit of capital will be larger in Country A than in Country B.
- B. An additional unit of capital will increase output in Country B only if there is an increase in the total efficiency units of labor.
- C. An additional unit of capital will increase output in Country A only if there is an increase in the total efficiency units of labor.
- D. The increase in output due an additional unit of capital will be smaller in Country A than in Country B.

*11. Country X and Country Y have identical aggregate production functions. The amount of capital stock available to each country is also equal. However, Country X has L_X amount of labor supply while Country Y has L_Y amount of labor supply.

A one unit increase in labor supply will lead to _____ in output in Country X than in Country Y.

- A. a larger decrease
- B. a larger increase
- C. a smaller decrease
- D. a smaller increase



*12. The minimum level of income per person that is generally necessary for the individual to obtain enough calories, shelter, and clothing to survive is referred to as:

- A. minimum wage rate.
- B. safety level of income.
- C. subsistence level of income.
- D. survival wage rate.

*13. The productivity of workers in an economy is high if:

- A. the economy has a large working age population.
- B. the economy has high levels of human capital.
- C. the economy has a negative rate of inflation.
- D. the economy has low capital stock.

*14. An economy with better technology is likely to:

- A. have lower levels of human capital.
 - B. achieve higher productivity.
 - C. use more labor than capital.
 - D. have less capital stock.
-

*15. Which of the following factors of production is least likely to show diminishing marginal product?

- A. Labor
 - B. Capital
 - C. Technology
 - D. Land
-

*16. An aggregate production function:

- A. shows various quantities of two goods that can be produced at a given cost.
 - B. shows the relationship between a country's GDP and its factors of production.
 - C. shows the relationship between a country's output and its price level.
 - D. shows various combinations of labor and capital that can be used to produce a particular good.
-

*17. Which of the following is a characteristic of an institution?

- A. Institutions place constraints on the behavior of economic agents.
 - B. Institutions have very little influence on a nation's economic prosperity.
 - C. The institutions of a nation are permanent and cannot be changed over time.
 - D. Institutions are determined by individual opinions without considering the government's preference.
-

*18. Assuming all else equal, if the production technology available to a nation improves, its aggregate production function:

- A. shifts inward.
 - B. becomes vertical.
 - C. shifts upward.
 - D. becomes horizontal.
-

*19. Suppose in a country, the working – age population doubles due to immigration. However, the country neglects investment in research and development and hence the country's level of technology is stagnant. Which of the following statements will be true of this economy?

- A. The economy will experience steady economic growth.
 - B. The economy cannot achieve a sustained growth.
 - C. The economy's output will rise at an increasing rate over time.
 - D. The savings rate will remain stagnant over the years.
-

*20. Those factors that lead to differences in the proximate causes of prosperity between nations are referred to as:

- A. fundamental causes of prosperity.
 - B. implicit causes of prosperity.
 - C. endogenous causes of prosperity.
 - D. explicit causes of prosperity.
-

*21. Which of the following statements is true?

- A. Growth in technology is linear in nature.
 - B. Growth in land productivity is exponential in nature.
 - C. Growth in technology is exponential in nature.
 - D. Growth in labor productivity is exponential in nature.
-

*22. Which of the following identifies correct reasons for the sustained growth in the Western world post 19th century?

- A. The American civil war and the Industrial Revolution
 - B. Demographic transition and the American civil war
 - C. Demographic transition and the Industrial Revolution
 - D. The Agricultural Revolution and the Industrial Revolution
-

*23. Activities that firms, universities, and governments undertake to increase their knowledge base are referred to as:

- A. primary activities.
 - B. research and development (R&D) activities.
 - C. tertiary activities.
 - D. secondary activities.
-

*24. Which of the following statements is true of Malthus's theory?

- A. Malthus suggested that in the long run, income levels will grow exponentially.
 - B. Malthus suggested that the life expectancy of the population will remain constant over time.
 - C. Malthus suggested that fertility level of the population will remain constant over time.
 - D. Malthus suggested that in the long run, income levels will stay at subsistence.
-

*25. The causes of prosperity that link high levels of prosperity to high levels of inputs of production, without explaining why the levels of those inputs are high, are referred to as:

- A. explicit causes of prosperity.
 - B. implicit causes of prosperity.
 - C. proximate causes of prosperity.
 - D. fundamental causes of prosperity.
-

*26. The cultural hypothesis of economic growth claims that:

- A. a common global culture is automatically created through liberal trade practices.
 - B. different values and cultural beliefs cause differences in prosperity around the world.
 - C. values and cultural beliefs are proximate causes for differences in prosperity around the world.
 - D. most of the ancient cultures of the world have almost been forgotten post – globalization.
-

*27. The formal and informal rules governing the organization of a society on the whole, including its laws and regulations, are referred to as:

- A. cultural scenario.
 - B. organizational structure.
 - C. institutions.
 - D. religious norms.
-

*28. Which of the following is NOT true of institutions?

- A. Institutions are determined by individuals as members of society.
 - B. Institutions act as constraints on the behavior of economic agents.
 - C. Institutions are permanent and cannot be changed over time.
 - D. Institutions affect incentives.
-

*29. The difference in economic growth in North Korea and South Korea can be primarily attributed to differences in _____.

- A. the proximate causes of prosperity
 - B. culture
 - C. geography
 - D. institutions
-

*30. Geographical conditions such as good climate, availability of natural resources, and fertile soil are examples of:

- A. proximate causes of prosperity.
- B. explicit causes of prosperity.
- C. fundamental causes of prosperity.
- D. implicit causes of prosperity.

1. D. Diminishing marginal product of labor

2. C. the expansion of production possibilities
D. current; previous; previous

3. D. Real GDP per person grows whenever real GDP grows.

4. 10
7.9

5. A. each worker becomes more productive

6. 20
10

7. B. A tractor

8. 2
A. 1960s; Great Depression

9. A. An increase in the number of years of training that each worker receives

10. A. The increase in output due an additional unit of capital will be larger in Country A than in Country B.

11. B. a larger increase

12. C. subsistence level of income.

13. B. the economy has high levels of human capital.

14. B. achieve higher productivity.

15. C. Technology

16. B. shows the relationship between a country's GDP and its factors of production.

17. A. Institutions place constraints on the behavior of economic agents.

18. C. shifts upward.
-
19. B. The economy cannot achieve a sustained growth.
-
20. A. fundamental causes of prosperity.
-
21. C. Growth in technology is exponential in nature.
-
22. C. Demographic transition and the Industrial Revolution
-
23. B. research and development (R&D) activities.
-
24. D. Malthus suggested that in the long run, income levels will stay at subsistence.
-
25. C. proximate causes of prosperity.
-
26. B. different values and cultural beliefs cause differences in prosperity around the world.
-
27. C. institutions.
-
28. C. Institutions are permanent and cannot be changed over time.
-
29. D. institutions
-
30. C. fundamental causes of prosperity.
-

1. An unemployed person _____.
- A. wants work, has made specific efforts to find a job within the previous four weeks, or is waiting to be called back to a job from which he or she has been laid off, or is waiting to start a new job within 30 days
 - B. can hold a part-time job and be searching for a full-time job
 - C. may be a person who is employed at a job that does not use the skills they have accumulated at college or on previous jobs
 - D. is not in the labor force

A person is *not* in the labor force if they are _____.

- A. in the working-age population but neither employed nor unemployed
- B. between the ages of 16 and 19
- C. unemployed
- D. over 65 years of age

2. The table gives information reported by the Bureau of Labor Statistics for 2010.

What is the unemployment rate, the labor force participation rate, and the employment-to-population ratio?

>>> Answer to 1 decimal place.

The unemployment rate is _____ percent.

The labor force participation rate is _____ percent.

The employment-to-population ratio is _____ percent.

Item	
Labor force	153,700,000
Employment	139,100,000
Working-age population	237,900,000

3. The table gives information about the labor market in July 2014 in the economy of Sandy Island.

What is the unemployment rate and the employment-to-population ratio in July 2014? Calculate the number of people unemployed, the number employed, and the unemployment rate at the end of August 2014.

>>> Answer to 1 decimal place.

In July 2014:

The unemployment rate is _____ percent.

The employment-to-population ratio is _____ percent.

At the end of August 2014:

The number of people unemployed is _____.

The number of people employed is _____.

The unemployment rate is _____ percent.

Labor Market Data	Number
In July 2014	
Employed	12,000
Unemployed	3,000
Not in labor force	3,000
During August 2014	
Lost jobs and didn't look for new jobs	120
Quit jobs and retired	20
Unemployed who were hired	150
Left the labor force	50
Entered the labor force to look for work	50

4. In March 2007, the U.S. unemployment rate was 4.4 percent.

In August 2008, the unemployment rate was 6.1 percent.

Assuming that the labor force remained constant between March 2007 and August 2008, then the number unemployed _____.

- A. did not change
- B. increased
- C. decreased
- D. either increased or decreased, but we can't predict for sure

5. In October 2009, the U.S. unemployment rate was 10.0 percent.

In October 2011, the unemployment rate was 8.9 percent.

Assuming that unemployment remained constant between October 2009 and October 2011, then the labor force _____.

- A. decreased
- B. did not change
- C. increased
- D. either increased or decreased but we can't predict for sure

6. The table shows the data reported by the Bureau of Labor Statistics in July 2012.

Calculate the labor force, employment, and the unemployment rate.

The labor force is _____ million.

>>> Answer with a whole number.

Employment is _____ million.

>>> Answer with a whole number.

The unemployment rate is _____ percent.

>>> Answer to 1 decimal place.

Labor Market Data	
Labor force participation rate	63.7 percent
Working-age population	243.4 million
Employment-to-population ratio	58.4 percent

7. The Population Survey in Blogsville for the past month is given in the table:

In Blogsville last month, _____ million people were in the labor force and _____ million people were in the working-age population.

- A. 53; 75
- B. 46; 51
- C. 51; 75
- D. 51; 82

Question facts

1. 39 million people had full-time jobs
 2. 7 million people had part-time jobs
 3. 5 million people were without work but were available for work and had made specific efforts to find a job within the past four weeks or were waiting to be recalled from a layoff or had a new job to start within the next 30 days
 4. 4 million part-time workers were looking for full-time jobs
 5. 24 million people of working age did not have jobs and did not want jobs
-

8. The **working-age population** is the total number of _____ aged _____ years and over who are not in jail, hospital, or some other form of institutional care or in the U.S. Armed Forces.

- A. people; 15
 - B. graduates; 20
 - C. people; 16
 - D. workers; 18
-

9. Unemployment arises for all of the following reasons *except* _____.

- A. people leave the labor force
- B. people leave their jobs and spend time searching for another job that better suits their abilities
- C. students enter the labor force to search for a job
- D. firms close, people lose their jobs and search for new jobs

Some unemployment is unavoidable because _____.

- A. many part-time workers would like to have full-time work
 - B. many people in the working-age population attend school and are unemployed
 - C. people are making transitions through the stages of life and businesses are making transitions
 - D. often people become discouraged workers
-

10. Choose the statement that is *incorrect*.

- A. At the natural unemployment rate, there is no cyclical unemployment.
 - B. All unemployment at the natural unemployment rate is cyclical unemployment.
 - C. Full employment occurs when all the unemployment is frictional or structural.
 - D. There can be a lot of unemployment at full employment.
-

11. The output gap is the gap between _____.
- A. real GDP and nominal GDP
 - B. real GDP and potential GDP
 - C. the actual unemployment rate and the natural unemployment rate
 - D. nominal GDP and potential GDP

When the economy goes into recession, the output gap is _____.

- A. positive
 - B. zero
 - C. greater than the natural unemployment rate
 - D. negative
-

12. The unemployment that arises when changes in technology or international competition change the skills needed to
- unemployment.

- A. cyclical
 - B. frictional
 - C. structural
 - D. natural
-

13. An economy is at full employment when _____.

- A. all unemployment is frictional and cyclical
 - B. the unemployment rate equals the natural unemployment rate
 - C. there is no structural unemployment
 - D. all unemployment is structural and cyclical
-

14. The natural unemployment rate _____.

- A. is equal to the difference between the forecasted unemployment rate and the actual unemployr
 - B. is greater than the actual rate of unemployment
 - C. is the unemployment rate at full employment
 - D. is equal to the number of people cyclically unemployed divided by the number in the labor force
-

15. When the unemployment rate _____ the natural unemployment rate, real GDP _____ potential GDP.

- A. is greater than; equals
 - B. is less than; is less than
 - C. equals; equals
 - D. is greater than; is greater than
-

16. Which of the following statements illustrates **frictional unemployment**?

- A. Robin is quitting his current job to find another that has better prospects.
- B. Dave lost his job as he did not possess the technical skills required to do his duty.
- C. Thousands of employees were laid off during the 2008-09 recession.
- D. Many bank tellers lost their jobs due to the installation of ATM machines.

17. Physical capital is _____. Financial capital is _____. Examples of physical capital are _____.
Examples of financial capital are _____.

- | | |
|--|---|
| <ul style="list-style-type: none"> <input type="radio"/> A. the tools, instruments, machines, buildings, and other items that have been produced in the past and that are used today to produce goods and services;
the funds that firms use to buy physical capital <input type="radio"/> B. the stocks that can be purchased on the stock market and the bonds that can be purchased on the bond market;
money in the bank <input type="radio"/> C. the funds that firms use to buy physical capital;
the stocks that can be purchased on the stock market and the bonds that can be purchased on the bond market <input type="radio"/> D. inventories of raw materials and semifinished goods;
the tools, instruments, machines, buildings, and other items that have been produced in the past and that are used today to produce goods and services | <ul style="list-style-type: none"> <input type="radio"/> A. the \$20 in your pocket;
bonds issued by Wal-Mart and stocks issued by Boeing <input type="radio"/> B. bonds issued by Wal-Mart and stocks issued by Boeing;
the \$20 in your pocket <input type="radio"/> C. ovens used by Pizza Hut and lawn mowers used by Larry's Mowing;
bonds issued by Wal-Mart and stocks issued by Boeing <input type="radio"/> D. inventories of steel and glass at Boeing;
the \$20 in your pocket |
|--|---|

18. Gross investment is _____.

Net investment is _____.

- A. depreciation minus net investment;
depreciation minus gross investment
- B. the change in the value of capital;
the total amount spent on new capital
- C. net investment minus depreciation;
gross investment plus depreciation
- D. the total amount spent on new capital;
the change in the value of capital

19. Cindy takes a summer job painting houses. During the summer, she earns an after-tax income of \$3,500 and she spends \$1,500 on living expenses.

What was Cindy's saving during the summer?

>>> If your answer is negative, include a minus sign. If your answer is positive, do not include a plus sign.

Cindy's saving during the summer was \$ _____.

20. **Real-Time Data Analysis Exercise***

The table provides information about the nominal interest rate and the CPI inflation rate in the United States for the past five months.

In November 2015, the real interest rate was _____ percent.

>>> Answer to the nearest 2 decimal places.

Between July 2015 and November 2015, the real interest rate (1) _____.

Nominal Interest Rate and the CPI Inflation Rate

Month, Year	Nominal interest rate (percent per year)	CPI inflation rate (percent per year)
Jul, 2015	4.15	0.18
Aug, 2015	4.04	0.21
Sep, 2015	4.07	0.22
Oct, 2015	3.95	-0.03
Nov, 2015	4.06	0.12

*Real-time data provided by Federal Reserve Economic Data (FRED), Federal Reserve Bank of Saint Louis.

- (1) didn't change
 increased
 decreased

21. Which of the following is an example of **financial capital**?

- A. Subway uses convection bread ovens.
 B. Maggie has bought a new HDTV.
 C. Rachel has taken a loan to buy a new home.
 D. The Fed has raised the savings rate by 0.2 percent.

22. The loanable funds market is _____.

- A. the aggregate of the bond and stock markets
 B. the same as the loan market
 C. the aggregate of all the individual financial markets
 D. the market set up by banks to provide loans to households and businesses

23. The _____ interest rate is the opportunity cost of loanable funds because _____.
- A. nominal;
when a consumer takes a loan, the interest rate quoted by the bank is the nominal interest rate
 - B. real;
when a consumer takes a loan, the interest rate quoted by the bank is the real interest rate
 - C. nominal;
the nominal interest paid on borrowed funds is the opportunity cost of borrowing and the nominal interest rate forgone is the opportunity cost of not saving or not lending those funds
 - D. real;
the real interest paid on borrowed funds is the opportunity cost of borrowing and the real interest rate forgone is the opportunity cost of not saving or not lending those funds

24. Choose the statement concerning firms' investment decisions that is *incorrect*.
- A. Fewer projects are profitable at a higher real interest rate than at a low real interest rate.
 - B. The higher the real interest rate, the greater is the demand for loanable funds, other things remaining the same.
 - C. The higher the real interest rate, the smaller is the quantity of loanable funds demanded, other things remaining the same.
 - D. Firms invest in capital only if they expect to earn a profit.

25. The table shows an economy's demand for loanable funds schedule and supply of loanable funds schedule.

What is the real interest rate, the quantity of investment, and the quantity of private saving?

The real interest rate is _____ percent a year, the quantity of investment is \$ _____ trillion, and the quantity of private saving is \$ _____ trillion.

>>> Answer to 1 decimal place.

If planned saving increases by \$0.5 trillion at each real interest rate, the real interest rate equals _____ percent.

If planned investment increases by \$1.0 trillion at each real interest rate, the real interest rate equals _____ percent a year and the quantity of saving (1) _____.

- (1) increases
 decreases
 does not change

Real interest rate (percent per year)	Loanable funds demanded (trillions of 2009 dollars per year)	Loanable funds supplied (trillions of 2009 dollars per year)
4	7.0	6.0
5	6.5	6.5
6	6.0	7.0
7	5.5	7.5
8	5.0	8.0
9	4.5	8.5
10	4.0	9.0

26. The sum of _____ is called **national saving**.

- A. private saving and government saving
 - B. government budget surplus and subsidies
 - C. private investment and government saving
 - D. consumption spending and household saving
-

27. If the annual interest paid on a \$500 loan is \$25, the **nominal interest rate** is _____ percent per year.

If the nominal interest rate is 5 percent per year and the inflation rate is 2 percent a year, the **real interest rate** is _____ per year.

- A. 5; 3
 - B. 4; 4
 - C. 3; 5
 - D. 5; 7
-

28. The **demand for loanable funds** is the relationship between _____ demanded and the _____ when all other influences on borrowing plans remain the same.

- A. the quantity of loanable funds; real interest rate
 - B. the quantity of capital; real interest rate
 - C. loanable funds; real wage rate
 - D. loanable funds; real interest rate
-

29. The **supply of loanable funds** is the relationship between _____ supplied and the _____ when all other influences on lending plans remain the same.

- A. loanable funds; real interest rate
- B. the quantity of capital; real interest rate
- C. loanable funds; real wage rate
- D. the quantity of loanable funds; real interest rate

1. A.
wants work, has made specific efforts to find a job within the previous four weeks, or is waiting to be called back to a job from which he or she has been laid off, or is waiting to start a new job within 30 days
A. in the working-age population but neither employed nor unemployed
-
2. 9.5
64.6
58.5
-
3. 20.0
66.7
2,850
12,010
19.2
-
4. B. increased
-
5. C. increased
-
6. 155
142
8.4
-
7. C. 51; 75
-
8. C. people; 16
-
9. A. people leave the labor force
C. people are making transitions through the stages of life and businesses are making transitions
-
10. B. All unemployment at the natural unemployment rate is cyclical unemployment.
-
11. B. real GDP and potential GDP
D. negative
-
12. C. structural
-
13. B. the unemployment rate equals the natural unemployment rate
-

14. C. is the unemployment rate at full employment

15. C. equals; equals

16. A. Robin is quitting his current job to find another that has better prospects.

17. A.

the tools, instruments, machines, buildings, and other items that have been produced in the past and that are used today to produce goods and services;

the funds that firms use to buy physical capital

C. ovens used by Pizza Hut and lawn mowers used by Larry's Mowing;
bonds issued by Wal-Mart and stocks issued by Boeing

18. D. the total amount spent on new capital; the change in the value of capital

19. 2,000

20. 3.94

(1) increased

Answers given reflect the data available at the time the exam was printed, and thus are subject to change.

21. C. Rachel has taken a loan to buy a new home.

22. C. the aggregate of all the individual financial markets

23. D. real;

the real interest paid on borrowed funds is the opportunity cost of borrowing and the real interest rate forgone is the opportunity cost of not saving or not lending those funds

24. B. The higher the real interest rate, the greater is the demand for loanable funds, other things remaining the same.

25. 5

6.5

6.5

4.5

6

(1) increases

26. A. private saving and government saving

27. A. 5; 3

28. A. the quantity of loanable funds; real interest rate

29. D. the quantity of loanable funds; real interest rate
