

Exam 1 ANSWER KEY

1. If Ford sells 200 Explorers for a total of \$400,000 to Germany, while the United States imports 100 BMWs for a total of \$500,000 from Germany,
 - A. Germany's GDP decreases.
 - B. U.S. net exports is positive.
 - C. U.S. GDP decreases because net exports are negative.**
 - D. U.S. GDP increases because it sells more Explorers.
2. The total number of workers in two different countries are equal. However, each worker in Country X is three times more productive than a worker in Country Y. Which of the following is true in this case?
 - A. The capital stock in Country Y is three times more than the capital stock in Country X.
 - B. The total efficiency units of labor in Country Y is six times more than the total efficiency units of labor in Country X.
 - C. The total efficiency units of labor in Country X is three times more than the total efficiency units of labor in Country Y.**
 - D. The total efficiency units of labor in Country X is one third of the total efficiency units of labor in Country Y.
3. Keynes' main contribution to economics is that he was the first to formalize the idea that aggregate economy does not behave like an individual firm, thus, the classical theory of economics is incompetent of describing the behavior of the aggregate economy of a country.
 - A. True**
 - B. False
4. The aggregate production function shows a(n) _____ relationship between _____ and output.
 - A. increasing; capital stock**
 - B. decreasing; labor
 - C. decreasing; capital stock
 - D. constant; labor
5. Suppose the Consumer Price Index is 143.6. What does that number mean?
 - A. Prices rose 43.6 percent over the reference base period, on average.**
 - B. On average, goods cost \$243.60.
 - C. On average, goods cost \$143.60.
 - D. Prices rose 143.6 percent over the reference base period, on average.
6. GDP is defined as the market value of all _____ in a given time period.
 - A. final goods produced in a country
 - B. final goods and services produced in a country by only the citizens of the country
 - C. final goods and services produced by citizens of a particular country regardless of where in the world they are located
 - D. final goods and services produced in a country**
7. Aside from being a means of payment, the other functions of money are
 - A. medium of exchange and the ability to buy goods and services.
 - B. pricing, contracts, and store of value.
 - C. medium of exchange, unit of account, and store of value.**
 - D. medium of exchange, unit of account, and means of lending.

8. The Great Depression was the worst economic event in U.S. since the beginning of the 21 century.
 A. True
B. False
9. If Frito Lay, an American snack company, opens a new manufacturing facility in Mexico and produces snacks which are distributed in South America, then Mexico's GDP _____ and U.S. GDP _____.
 A. does not change; increases
 B. increases; increases
 C. increases; decreases
D. increases; does not change
10. The bias in the CPI typically
 A. understates inflation.
 B. about half the time overstates and about half the time understates the inflation rate.
C. overstates inflation.
 D. cannot be measured or estimated.
11. Slowdonia's current growth rate of real GDP per person is 2 percent a year. How long will it take to double real GDP per person?
 A. 28.6 years
 B. half a year
 C. approximately 10 years
D. 35 years

Use the below table to answer questions 12 and 13:

Year	Price index	Inflation rate (%)
1	100	
2	117	A
3	125	B
4	120	C
5	D	8.3
6	150	E

12. In the table above, what inflation rate belongs in space B?
 A. -4.0 percent
B. 6.8 percent
 C. 8.3 percent
 D. 17.0 percent
13. In the table above, what inflation rate belongs in space E?
 A. 17.0 percent
B. 15.4 percent
 C. 6.8 percent
 D. 8.3 percent
14. Which of the following is a final good?
 A. flour used by the bakery to bake cookies
 B. a share of IBM stock
 C. the memory chips in your new smart phone
D. flour purchased at the store to bake cookies

15. The first step in measuring the CPI is to
- A. collect prices for the basket of goods and services.
 - B. select the market basket.**
 - C. conduct a monthly survey.
 - D. interview businesses.
16. Depository institutions
- A. earn zero profit but receive compensation by the government because their services are so valuable.
 - B. make profit from the spread between the interest rate they pay on deposits and the interest rate they receive on loans.**
 - C. earn money by charging the government for their services.
 - D. earn profit according to how much the Federal Reserve pays them.
17. In an economy, there is \$200 million in currency held outside banks, \$100 million in traveler's checks, \$250 million in currency held inside the banks, \$300 million in checking deposits, and \$600 million in savings deposits. The value of M1 is _____.
- A. \$1,200 million
 - B. \$600 million**
 - C. \$750 million
 - D. \$1,150 million
18. Which of the following will result in an upward shift of the aggregate production function?
- A. discovery of an advanced technology**
 - B. An increase in the aggregate price level in the economy
 - C. An increase in the rate of taxation in the economy
 - D. An increase in the number of educated people in the economy
19. The CPI basket contains 400 oranges and 800 pens. In the base year, the price of an orange is \$1.00 and the price of a pen is \$0.75. This year, urban consumers each buy 300 oranges at \$2.00 each and 850 pens at \$1.00 each. The CPI this year is _____.
- A. 62.5
 - B. 160**
 - C. 140
 - D. 1.60

20.

<i>Component</i>	<i>Amount, \$</i>
Money market mutual fund deposits	4,400
Time deposits	1,237
Savings deposits	1,589
Checking deposits	752
Currency	609

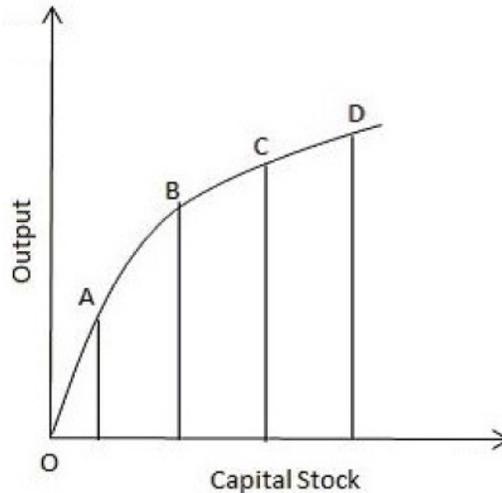
Based on the data in the table above, what is the value of M1?

- A. \$2,950 billion
- B. \$609 billion
- C. \$1,361 billion**
- D. \$752 billion

21. Which of the following relationships is correct?

- A. Depreciation = Gross Investment Capital - Consumption
- B. Gross Investment = Net Investment + Depreciation**
- C. Net Investment = Gross Investment + Depreciation
- D. Capital Consumption = Net Investment - Depreciation

22. The figure below shows the total output that an economy can produce using varying amounts of capital.



Suppose a country is currently at point C. Which of the following will happen if it experiences an improvement in technology?

- A. The curve will shift upward.**
 - B. The curve will shift downward.
 - C. It will move from point C toward point A.
 - D. It will move from point C towards point D.
23. In 2010, you invested \$10000 into Spain's economy. How much money (in nominal terms) will you have in 2050 if your investment grows at a constant rate of 10% per year?
- A. \$400,000.00
 - B. \$440,000.00
 - C. \$110,000.00
 - D. \$452,592.56**
24. If the basket of goods and services used to calculate the CPI cost \$200 in the reference base period and \$450 in a later year, the CPI for the latter year equals
- A. 450.
 - B. 325.
 - C. 225.**
 - D. 200.
25. Absence of property rights in the Soviet Union is an example of:
- A. exclusive economic institution
 - B. inclusive economic institution
 - C. extractive economic institution**
 - D. attractive economic institution

26.

Year	Price level
2006	91
2007	100
2008	110
2009	121

In the above table, the inflation rate between 2006 and 2007 is approximately

- A. 100 percent.
- B. 1 percent.
- C. 10 percent.**
- D. 0.9 percent.

27.

	quantity	2009 price	2015 price
Blu - rays	10 discs	\$16 per disc	\$12 per disc
Water	200 bottles	\$1.00 per bottle	\$1.25 per bottle

If 2009 is the reference base period, what is the price index for the CPI basket of goods for 2015 in the above table?

- A. 97.3
- B. 102.8**
- C. 128.0
- D. zero because the price of Blu - rays fell and the price of water increased

28. According to the BEA, in the second quarter of 2012 personal consumption expenditures grew by 1.7 percent, gross private domestic investment grew by 3.0 percent, government expenditure on goods and services decreased by 0.9 percent, imports grew by 2.9%, and exports grew by 6.0%. Given these data, it is most likely that

- A. the economy hit a business cycle peak.
- B. the economy hit a business cycle trough.
- C. GDP growth was positive in the 2nd quarter.**
- D. GDP growth was negative in the 2nd quarter.

29.

Year	Entrance to the Feve		A glass of coke at the Feve	
	Q	P	Q	P
2012	100	\$10	50	\$1.00
2013	90	\$15	50	\$1.50
2014	120	\$12	30	\$1.50

Using 2013 as the base year, calculate the CPI for each year.

The CPI was _____ in 2012, _____ in 2013, and _____ in 2014.

- A. 100; 120.7; 150
- B. 100; 100; 80.49
- C. 66.67; 100; 80.49**
- D. 100; 150; 120.7

30. Total efficiency units of labor is:

A. obtained by multiplying the total number of workers in the economy by the average efficiency of each worker.

B. obtained by dividing the total number of workers in the economy by the average efficiency of each worker.

C. obtained by multiplying the total population of the economy by the average amount of capital available to each worker.

D. obtained by dividing the total capital stock of the economy by the total number of workers.