**REVIEW QUESTIONS FOR MIDTERM EXAM**

**Chapters 1, 3, 6, 8, 9, 12, 13**

**Spring 2018 Macroeconomics**

**Prof. MacDonald**

**Sample Multiple Choice Questions:**

1. When economists wish to examine the effects of just one variable as a result of a change in an independent variable, they often apply the methodology of:

 A. All other variables constant

 B. Ockham’s razor

 C. Post hoc, ergo Procter hoc

 D. The fallacy of composition

2. In a market economy, \_\_\_\_\_\_\_\_\_\_ make most economic decisions.

A. government

B. market

C. businesses

3. In the \_\_\_\_\_\_\_\_\_\_\_\_, households work and receive wages or salaries from firms.

A. financial investment market

B. financial capital market

C. labor market

D. savings market

4. The basic difference between macroeconomics and microeconomics is:

A. microeconomics concentrates on individual markets while macroeconomics focuses primarily on international trade.

B. microeconomics concentrates on the behavior of individual consumers while macroeconomics focuses on the behavior of firms.

C. microeconomics concentrates on the behavior of individual consumers and firms while macroeconomics studies the performance of the entire economy.

D. microeconomics explores the causes of inflation while macroeconomics focuses on the causes of unemployment.

5. Which of the following is most likely a topic of study in macroeconomics?

A. change in demand aa a result of an increase in the price of a hamburger

B. a decrease in the production of DVD players by a consumer electronics company

C. an increase in the wage rate paid to automobile workers

D. a change in the unemployment rate

6. Which of the following are criteria applied in evaluating the effectiveness of economic decisions or policies?

 A. Is the policy efficient?

 B. What are the opportunity costs of the proposed policy?

 C. Is the policy proposed by an Independent, a Republican or a Democrat?

 D. Is the policy fair or equitable for most people in society?

 E. All are correct except C.

 F. All of the above

7. Nominal income is

a) The average amount of a paycheck.

b) The normative amount that a worker should be paid.

c) The dollar value of pay before being adjusted for inflation.

d) The purchasing power of income.

e) The maximum amount a worker can be paid during a recession.

8. Most of the economic systems today can be described as:

 A. Command economies

 B. Laissez-faire economies

 C. Market economies

 D. None of the above

9. Look at the circular flow diagram below: which of the following statements is true?

1. Households demand goods and services and supply resources to producers of goods and services.
2. Households supply goods and services and demand resources.
3. Firms demand goods and services and supply resources to households.
4. Firms supply goods and services and demand resources from households.
5. Both A and D are true.



10. The Law of Demand states that:

A. demand cannot exist apart from supply.

B. there is an inverse relationship between price and quantity demanded, all other variables constant

C. there is a positive relationship between price and quantity demanded, all other variables constant

D. as the price goes up, quantity demanded remains constant.

11 Under the expenditure method of measuring GDP, net exports are negative when:

(a) the value of total exports exceeds the value of total imports.

(b) the nation’s policy is to encourage exports and discourage imports.

(c) the value of total imports exceeds the value of total exports.

(d) imports and exports are in balance

12. Productivity is defined as:

a. The amount of total output of goods and services produced in the economy per year.

b. Total expenditure by all consumers in a given year

c. The output per worker per hour

d. The amount of economic output and expenditure.

13. Measures of Gross Domestic Product include ***all except*** which of the following?

a. Consumer expenditures on goods and services

b. Net private domestic investment/production of goods and services in the U.S. by foreign producers

c. Output of goods and services by U.S. companies and workers in other countries.

d. Government expenditures and investment

e. Net exports

14. Demand driven economic policy – increasing aggregate demand to stabilize the economy’s level of employment and output during recessions had its origins in:

 a. Keynes’ theory that in times of economic downturn, the government could and should use its power to spend to stimulate aggregate demand and move the economy toward a full employment level of output.

 b. The failure of markets to automatically recover during the Great Depression.

 c. The success of the neoclassical economic belief in the theory of self-correcting market forces.

 d. Both a) and c)

 e. Both a) and b)

15. In measuring Gross Domestic Product, intermediate goods are defined as:

A. Goods that are inputs into the production of a final good that will be counted when production of the final good is completed.

B. Complementary goods, such as ice cream and fudge.

C. Goods that, in and of themselves, have little value.

D. Goods that are intentionally counted twice in calculating GDP for a given year.

16. A way to distinguish positive from normative statements is expressed in which of the following statements?

(a) positive statements deal with “what is” while normative statements deal with “what ought to be.”

(b) positive statements are upbeat while normative statements are downbeat.

(c) positive statements deal with “what ought to be” while normative statements deal with “what is.”

(d) positive statements are always true and normative statements are sometimes true.

(e) normative statements can be proven to be true but positive statements can never be proven to be true.

17. Gross Domestic Product is expressed as:

a. C+I+G+Exports

b. C+I+G+Net Exports

c. C+I+G

d. C+I+Net exports

181. Keynes’ response to the Neoclassical theory assumption that “supply creates its own demand” was that:

 (b) demand creates its own supply.

(c) this does not apply in a recession or depression.

(d) supply creates its own demand only when the loanable funds market is in disequilibrium.

(e) demand is independent of supply.

19. The national debt is equal to:

 A) The sum of all prior years’ deficits minus surpluses.

 B) public debt not held by foreigners.

 C) all prior business debt.

 D) all prior household deficits and surpluses.

 E) consumer debt in the nation.

20. The U.S. economy produced $4 trillion in durable goods in 2016; of this total, $3.8 trillion were sold in 2016. The remaining unsold $0.2 trillion in durable goods produced in 2016 would be included in:

A. 2017 GDP because that is the year in which they will likely be sold.

B. 2016 GDP because that is the year in which the goods were produced.

C. 2015 GDP because that is when most of the resources that were used to make the goods were obtained.

D. 2015 GDP because that is when all of the workers were hired.

21. As a result of technological change, or the acquisition of new resources, the economy’s capacity to produce or supply more goods and services would be represented by which of the following?

A. An inward shift in the supply curve

B. An outward shift in the supply curve

C. No change in supply at all.

22. Under the expenditure method of measuring GDP, net exports would be positive if:

(a) the value of total imports exceeds the value of total exports.

(b) the nation’s policy is to encourage exports and discourage imports.

(c) the value of total exports exceeds the value of total imports

(d) imports and exports are in balance

23. A price ceiling can be defined as:

(a) Government establishing a minimum price at which a good or service can sell

(b) Government establishing a maximum price at which a good or service can sell

(c) Government establishing a price that is roughly equal to the market price

(d) Government establishing a price that is 5% higher than the market equilibrium price.

24. Keynes’ response to the neoclassical assumption that “supply creates its own demand” was:

(a) Neoclassical economists did not understand how businesses operate.

(b) demand creates its own supply.

(c) the assumption is only applicable during a recession.

(d) supply creates its own demand only when the loanable funds market is in disequilibrium.

(e) demand is independent of supply.

25. Job creation rates, wages and GDP are rising. The economy is:

A. Entering a recession

B. Expanding or growing

C. Stuck In a trough

D. Headed toward a stagnation.

26. Which best describes the incentives that expected inflation provides to sellers/suppliers in the economy?

A) Sellers will want to accept the offer from the lowest bidder.

B) Sellers will sell less now and wait until prices stabilize before making more purchases.

C) Sellers will wait for the offer from the highest bidder.

D) Sellers will wait until prices fall before selling again.

27. Which of the following individuals would benefit from unexpected inflation?

a) A homeowner paying an adjustable rate mortgage

b) A worker whose union contract specifies annual wage increases over the next four years.

c) A consumer paying off a credit card whose interest rate changes when the rate of inflation changes.

d) A homeowner paying off a fixed rate mortgage.

28. The measure of real earnings is expressed by which of the following?

a. Nominal earnings plus inflation = real rate of interest

b. % change in real earnings = % change in nominal earnings – inflation

c. Earnings = rate of income growth

d. Real earnings = nominal earnings plus taxes

29. The reason the Bureau of Labor Statistics excludes fully retired persons and full-time homemakers from its definition of the labor force is that:

(a) these people have few talents to offer potential employers.

(b) society does not value retirees or institutionalized individuals.

(c) these people have chosen not to supply their labor to employers.

(d) any work they do is considered “off the books.”

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30. As a result of the failure to include discouraged workers as part of the official measure of the labor force:

(a) the official unemployment rate tends to overestimate the true level of unemployment during a recession.

(b) the official unemployment rate tends to underestimate the true level of unemployment during a recession.

(c) other workers to lose faith in their managers.

(d) None of the above

31. “Structural unemployment” would be defined as

a. unemployment caused by technological changes in the workplace that have made some jobs obsolete.

b. unemployment that is due to normal turnover in the labor market.

c. unemployment caused by seasonal changes.

d. unemployment that is due to the friction of workers competing for the same job.

**II. Examples of Short Answer Questions (you will choose only one; 5 points optional extra credit)**

* + - 1. **Clearly explain the difference between a change in the quantity demanded and a change in (shift in) demand**. **A)** Explain what variable leads to a change in quantity demanded**? B)** What are the variables that can lead to a change (shift) in demand?

**Please explain completely and clearly**; **You may use graphs to help explain your answer.**

* + - 1. ***Thoroughly*** summarize the arguments of **Keynesian (short-run)** ‘demand driven’ theory. **A)** Explain how Keynes’ specific arguments contrasted with those of **neoclassical (long-run) theory. B**) What key observations did Keynes make about the failure of the U.S. economy to recover from the Great Depression that the neoclassical theorists did not consider? C) What specific policies did Keynes advocate to help bring about an economic recovery in the early years of the Depression?
			2. Define the concept of ***all other variables held constant***. **A**) Explain why the concept is often used in analyzing the role of different variables in influencing economic outcomes. **B)** Provide an example that clearly illustrates its use in economic analysis and in understanding economic behavior.
			3. Provide a complete and clear definition of what a normative economic statement is. Provide a complete and clear definition of what a positive economic statement is. **A)** Provide ***examples*** of each that illustrate the meaning of each type of statement (please use complete sentences). **B)** Explain ***why it is important*** to distinguish between normative and positive statements in understanding economic information or arguments.

**Part III: Sample problem Solving (Your will choose 4 questions: 10 pts each)**

1. The following table provides details for the Gross Domestic Product for the U.S. **for Year 2011**. (see below); A) Calculate GDP (the total of C + I + G + Net Exports) for 2011? B) What percentage did Gross Private Domestic Investment spending represent of total GDP for 2011? C) What percentage did consumer spending represent of total GDP? D) What percentage did total government spending represent of total GDPin 2011?

|  |  |
| --- | --- |
| **2011 Real Annual GDP (trillions)** |  |
| **Personal consumption expenditures..** |  |
|  Durable goods.................. | 1161.9 |
|  Nondurable goods............... | 2483.3 |
|  Services......................... | 7077.4 |
|  |  |
| **Gross private domestic investment..** | 1913.6 |
|  Fixed investment................. | 1866.4 |
|  Change in private inventories.... | 47.2 |
|  |  |
| **Net exports of goods and services..** |  |
|   |  |
|  Exports.......................... | 2087.6 |
|  Goods.......................... | 1474.4 |
|  Services....................... | 613.2 |
|   |  |
|  Imports.......................... | 2665.8 |
|  Goods.......................... | 2239.5 |
|  Services....................... | 426.2 |
|  |  |
| **Government consumption expenditures** |  |
|  **and gross investment..............** |  |
|  |  |
|  Federal.......................... | 1232.7 |
|  National defense............... | 824.8 |
|  Nondefense..................... | 407.9 |
|  State and local.................. | 1797.0 |

1. Given Gross Domestic Product for a base year and future years, calculate both nominal and real Gross Domestic Product.

Suppose 2010 is the base year for estimating real GDP in future years. In 2010, the U.S. economy produced 400 gadgets at a cost of $10 each. Nominal GDP in 2010 = $400.

In 2012, the economy produced 450 gadgets at a cost of $12 each. Calculate nominal and real GDP.

Nominal GDP in 2012 = $\_\_\_\_\_. Real GDP in 2012 = \_\_\_\_\_\_\_.

1. Using the demand curve below, A) show the effects of a ***shift in demand*** (an increase in demand ***and*** a decrease in demand at all price levels). B) What are the non-price variables that can lead to a shift in demand?

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 Quantity demanded

1. **Use the Table below to answer the question that follows:**

|  |  |  |  |
| --- | --- | --- | --- |
| Price | Quantity Supplied A | Quantity Supplied B | Quantity Supplied C |
| $100 | 60 | 0 | 0 |
| $200 | 70 | 25 | 0 |
| $300 | 80 | 45 | 5 |

In the table above, there are three suppliers, A, B, and C. According to the Table, at a price of $200 per unit, the market quantity supplied would be:

(a) 60 units.

(b) 70 units.

(c) 80 units.

(d) 95 units

1. Using a demand and supply diagram for rent regulated housing, draw on the graph how rent stabilization functions to regulate the market ‘price’ of housing regardless of economic conditions. B) What is this form of price regulation called?
2. Identify and clearly define four types of unemployment. Which form is typically associated with recessions?