

Name: _____

Date: _____

Period: _____

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

- 1) Gross Domestic Product measures the 1) _____
 A) market value of the final goods and services produced in a given year within a country.
 B) market value of the final goods and services consumed by households in a given year within a country.
 C) income of the business sector within a country.
 D) quantity of the goods and services produced in a given year, listed item by item, within a country.
 E) measures the market value of the domestic labor in a given year within a country.
- 2) Which of the following makes the Consumer Price Index a less accurate measure of the cost of living? 2) _____
 i. the monthly price survey conducted to collect information about prices is very unreliable
 ii. the existence of a new goods bias in the calculation of the CPI
 iii. the existence of a quality change bias in the calculation of the CPI
 A) ii only B) i only C) ii and iii D) i and ii E) i, ii, and iii
- 3) When the cost of the CPI market basket increases from one year to the next, we know that 3) _____
 A) on the average, current prices are less than past year prices.
 B) on the average, current prices are below base year prices.
 C) the quantities of the goods and services contained in the CPI market basket have increased on the average.
 D) either the quantities of the goods and services contained in the CPI market basket have increased on the average and/or the prices of the goods and services contained in the CPI market basket have increased on the average.
 E) the prices of the goods and services contained in the CPI market basket have increased on the average.

Item	Billions of dollars
Consumption expenditure	7,500
Investment	1,300
Government expenditure on goods and services	1,400
Net exports of goods and services	-200

- 4) Based on the data in the table above, what does GDP equal? 4) _____
 A) \$10,000 billion
 B) \$10,400 billion
 C) \$9,800 billion
 D) \$10,200 billion
 E) \$8,900 billion

Item	Quantity (2009)	Price (2009)	Quantity (2010)	Price (2010)
Magazines	400	\$5.00	450	\$4.50
Movie tickets	50	\$6.00	200	\$8.00
Pizzas	100	\$10.00	120	\$10.50

The data in the table above shows the consumption by families in an economy. The year 2009 is the reference base period.

- 5) Based on the table above, the CPI for 2009 is _____
 A) 105.1. B) 102.5. C) 5.0%. D) 100. E) 98.5.
- 6) In 2009, real GDP in the United States was below potential GDP. This fact definitely means that _____
 A) the unemployment rate was nearing 10 percent.
 B) the unemployment rate was above the natural unemployment rate.
 C) cyclical unemployment had been decreasing.
 D) the economy was in an expansion.
 E) frictional unemployment was negative.
- 7) In June 1960, the price of gasoline in the Midwest was \$0.169 per gallon and the CPI was 29.6 with a base period of 1982 to 1984. What was the real price of gasoline per gallon in base period dollars? _____
 A) \$0.169 per gallon
 B) \$0.057 per gallon
 C) \$0.296 per gallon
 D) \$0.05 per gallon
 E) \$0.571 per gallon
- 8) Suppose the CPI for the year 2010 is 133.7. This number means that _____
 A) prices rose 133.7 percent over the base year.
 B) prices rose 33.7 percent over the last year.
 C) prices rose 33.7 percent over the base year.
 D) on average, goods cost \$133.70 each in the year 2010.
 E) prices rose 133.7 percent over the last year.
- 9) If real GDP exceeds potential GDP, then the unemployment rate _____ the natural unemployment rate. _____
 A) is greater than
 B) equals
 C) is less than
 D) The premise of the question is incorrect because the relationship between real GDP and potential GDP has nothing to do with the relationship between the unemployment rate and the natural unemployment rate.
 E) The premise of the question is incorrect because real GDP can *never* exceed potential GDP.
- 10) If for a given year nominal GDP is \$2000 billion and real GDP is \$1500 billion, then the GDP price index is _____
 A) 750. B) 0.75 C) 100. D) 133 E) 1.33
- 11) Which type of unemployment arises when changes in technology or international competition change the skills needed to perform jobs or change the location of jobs? _____
 A) skill-set B) structural C) cyclical D) frictional E) seasonal

Item	Data for 2009		Data for 2010	
	Quantity	Price	Quantity	Price
Bread	50	\$4.00	70	\$3.00
Soda	50	\$5.00	50	\$6.00

- 12) The table above gives the production and prices for a small nation that produces only bread and soda. The base year is 2009. What is real GDP in 2010? 12) _____
- A) \$1080 B) \$300 C) \$530 D) \$510 E) \$210

Year	CPI
1994	90.0
1996	95.5
1998-2000	100.0
2002	104.0

- 13) The table above gives the CPI for a nation. Based on the table, we can determine that the reference base period is 13) _____
- A) 1994.
 B) 2002.
 C) 1996.
 D) 1998-2000.
 E) More information about when the Consumer Expenditure Survey was undertaken is needed to answer the question.

- 14) The inflation rate is the 14) _____
- A) difference between the current period CPI and the base period CPI.
 B) difference in the price level from one year to the next multiplied by 100.
 C) percentage change in the CPI from one year to the next year.
 D) percentage change in the composition of the CPI market basket from the base year to the next year.
 E) difference between the base period CPI and the current period CPI.

- 15) During a recession the unemployment rate generally _____ and during an expansion the unemployment rate generally _____. 15) _____
- A) falls; rises
 B) rises; falls
 C) rises; does not change
 D) does not change; falls
 E) rises; rises

- 16) Which of the following is classified as an intermediate good? 16) _____
- i) the purchase of a Big Mac by a college student
 ii) McDonald's purchase of pickles
 iii) a McDonald's restaurant owner's interest payment for the loan on her building.
- A) ii only. B) ii and iii. C) i, ii and iii. D) i only. E) i and iii..

- 17) Suppose higher prices lead consumers to switch from shopping at Abercrombie & Fitch to shopping at Wal-Mart. If the CPI does not reflect this change, it is referred to as _____
- A) store bias.
 - B) a quality change bias.
 - C) a new goods bias.
 - D) an outlet substitution bias.
 - E) a new price bias.

- 18) Last year in Candamica, consumption expenditure was \$20 billion, interest, rent, and profit were \$2.5 billion, government expenditure on goods and services was \$7 billion, net exports of goods and services was \$5 billion, and investment was \$2 billion. Hence total expenditure was _____
- A) \$24.5 billion.
 - B) undetermined without information about imports.
 - C) \$34 billion.
 - D) \$34.5 billion.
 - E) \$36.5 billion.

Category	Number of people (millions)
Total population	250
Less than 16 years of age	30
Institutionalized	15
Part-time workers	20
Full-time workers	145
Looking for work in the past 4 weeks	10
In U.S. Armed Forces	10

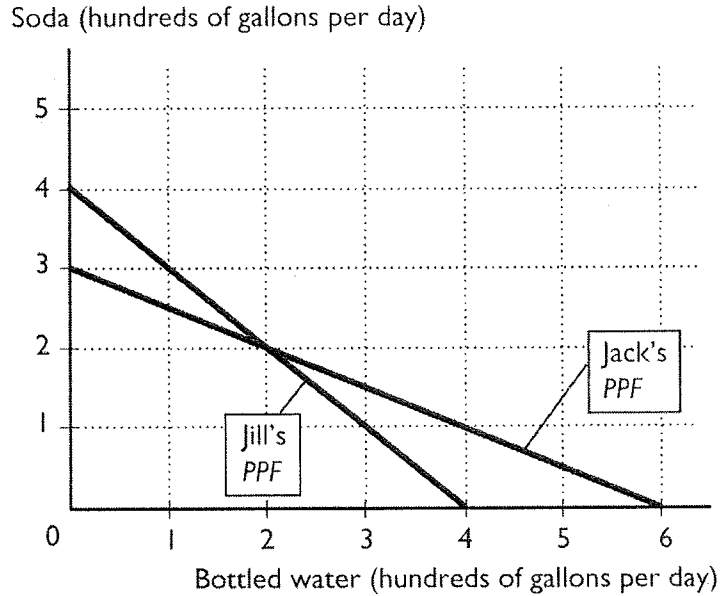
- 19) Using the table above, the working-age population is _____
- A) 195 million.
 - B) 170 million.
 - C) 220 million.
 - D) 155 million.
 - E) 250 million.

- 20) Using the table above, the unemployment rate is _____
- A) 5.71 percent.
 - B) 5.13 percent.
 - C) 5.88 percent.
 - D) 6.45 percent.
 - E) 6.90 percent.

Category	Number of people (millions)
Discouraged workers	5
Unemployed workers	12
Employed workers	48
Working-age population	100

- 21) From the table above, which gives data about the U.S. labor market in 1933, the labor force participation rate is 21) _____
- A) 95 percent.
B) 48 percent.
C) 60 percent.
D) 12 percent.
E) 65 percent.
- 22) A reduction in unemployment compensation will 22) _____
- A) not change the amount of frictional unemployment because unemployment compensation affects only structural unemployment.
B) increase the amount of cyclical unemployment.
C) increase the amount of frictional unemployment.
D) not change the amount of frictional unemployment because unemployment compensation affects only cyclical unemployment.
E) decrease the amount of frictional unemployment.
- 23) Government expenditure on goods and services include 23) _____
- i) the New York City's library's purchase of new books
ii) Washington D.C.'s purchase of gas for its city buses
iii) California's payment of wages to prison guards.
A) i and iii. B) i and ii. C) ii and iii. D) i only. E) i, ii and iii.
- 24) Real GDP is \$1,400 billion and nominal GDP is \$1,800. The GDP price index equals 24) _____
- A) 2.86. B) 128.6 C) 77.0. D) 100.0. E) 222.2
- 25) Bobby was researching the economic growth of a country between 2006 and 2011. Using 2006 as the base year, he calculated a twelve percent increase for real GDP and a ten percent increase for nominal GDP. His results indicate that 25) _____
- A) the quantity of goods and services produced and prices both decreased over the period.
B) the quantity of goods and services produced increased and prices decreased over the period.
C) he made an error when calculating nominal GDP.
D) the quantity of goods and services produced decreased over the period.
E) the quantity of goods and services produced did not change and prices decreased over the period.
- 26) Which of the following expenditure components of GDP can be negative or positive? 26) _____
- A) Government expenditure on goods and services
B) Consumption expenditure
C) Net exports of goods and services
D) Investment
E) None of the above because expenditure can never be negative.

- 27) Which is true regarding cyclical unemployment? 27) _____
- i) Cyclical unemployment is positive at business cycle peaks.
 - ii) Cyclical unemployment is negative at business cycle troughs.
 - iii) Cyclical unemployment is zero at full employment.
- A) i only. B) i, ii and iii. C) i and iii. D) iii only. E) i and ii.
- 28) If the price of a soda was 15 cents in 1970, when the CPI was 50, and 50 cents in 2007 when the CPI was 172, then the real price of 28) _____
- A) the 2007 soda in 1970 dollars is \$3.44.
 - B) the 1970 soda in 2007 dollars is 52 cents.
 - C) a soda has risen 567 percent.
 - D) the soda was 15 cents in 1970 and 50 cents in 2007.
 - E) a soda has risen 350 percent.
- 29) After graduating from college, Yunis, age 22, started working for his parent's real estate business as an unpaid assistant. He works 25 hours a week helping manage rental units . In the Current Population Survey, Yunis is considered 29) _____
- A) part of the labor force and employed.
 - B) part of the labor force and unemployed.
 - C) a discouraged worker.
 - D) part of the labor force but not part of the working-age population.
 - E) not part of the labor force.
- 30) Which of the following would be included in Germany's GNP? 30) _____
- A) the production of BMWs (made by a German-based company) in South Carolina.
 - B) the production of Michelin tires made in Germany by a French company and then sold directly to French consumers.
 - C) the production of BMWs in Germany.
 - D) the production of Michelin tires made in France by a French company and then sold to BMW in Germany for use in BMW cars.
 - E) answers A and C are correct.



- 31) In the above figure, Jack's opportunity cost of producing 1 gallon of bottled water is _____ of soda. 31) _____
- A) 1/2 of a gallon
 - B) 2 gallons
 - C) 1 gallon
 - D) 1/4 of a gallon
 - E) 6 gallons
- 32) Using the figure above, if Jack and Jill specialize and gain from trade, then 32) _____
- A) Jack produces equal amounts of gallons of water and bottled water.
 - B) Jack and Jill produce beyond their PPF.
 - C) Jack specializes in the production of bottled water.
 - D) Jack specializes in the production of soda.
 - E) Jack specializes on the production of soda and water.
- 33) A marginally attached worker 33) _____
- i) does not have a job and has not looked for one in the last month.
 - ii) is available and willing to work.
 - iii) must work at least 1 hour per week.
- A) i only. B) iii only. C) ii only. D) i and ii. E) ii and iii.
- 34) The difference between nominal and real is 34) _____
- A) real is a number stated in dollars and nominal is stated with an index number.
 - B) real is measured in current dollars and nominal is measured in dollars of a given year.
 - C) both nominal and real are measured with index numbers, only the nominal index is greater than 100 and the real index is less than 100.
 - D) nominal is a number stated in dollars and real is stated with an index number.
 - E) nominal is measured in current dollars and real is measured in dollars of a given year.

- 35) In a circular flow diagram, 35) _____
 i) the value of production = income
 ii) the value of production = expenditure
 iii) expenditure = income
 A) only i is a true statement.
 B) i and ii are true statements.
 C) only iii is a true statement.
 D) i and iii are true statements.
 E) i, ii and iii are true statements.
- 36) The income approach to measuring GDP is based on summing 36) _____
 A) the values of final goods, intermediate goods and services, used goods, and financial assets.
 B) consumption expenditure, investment, government expenditures on goods and services, and net exports of goods and services.
 C) consumption expenditure and wages.
 D) wages, interest, rent, and profits.
 E) the production of each industry.
- 37) Which of the following is included in U.S. GDP? 37) _____
 i) the rental value of homes owned by U.S. citizens.
 ii) the production of Suburban SUVs by GM in its plant in Mexico.
 iii) Tickets sold by U2 for concerts held in the United States.
 A) i only. B) i and iii. C) i, ii and iii. D) ii and iii. E) ii only.
- 38) In one year, a firm increases its production by \$9 million and increases sales by \$8 million. All other things in the economy remaining the same, which of the following is true? 38) _____
 A) Inventory investment decreases by \$1 million.
 B) GDP increases by \$8 million and investment increases by \$1 million.
 C) GDP increases by \$17 million.
 D) GDP increases by \$8 million and inventory investment decreases by \$1 million.
 E) GDP increases by \$9 million and inventory investment increases by \$1 million.
- 39) An increase in nominal GDP could result from an increase in 39) _____
 i. production.
 ii. prices.
 iii. taxes and subsidies.
 A) i and ii B) i and iii C) i only D) i, ii, and iii E) ii only

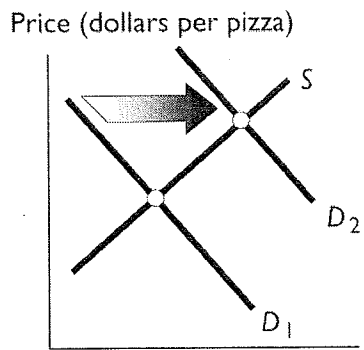
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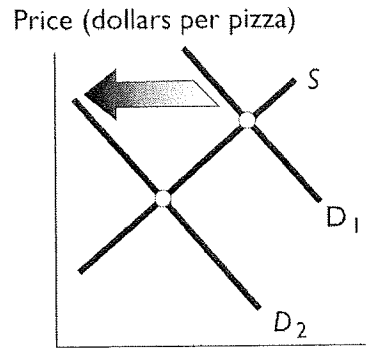
- 40) Based on the table above, the CPI for 2010 is _____ 40) _____
 A) 98.5.
 B) 5.0 percent.
 C) 100.
 D) 105.1.
 E) 102.5.
- 41) Which of the following is included as investment in GDP? _____ 41) _____
 i. cars produced during the year but unsold at the end of the year
 ii. new capital equipment produced and purchased during the year
 iii. purchases of a company's stocks and bonds
 A) i only B) i, ii, and iii C) iii only D) i and ii E) ii only
- 42) Suppose GDP is \$10 billion, consumption expenditure is \$7 billion, investment is \$2 billion, and government expenditure on goods and services is \$2 billion. Net exports of goods and services must be _____ 42) _____
 A) -\$2 billion.
 B) -\$1 billion.
 C) \$2 billion.
 D) \$10 billion.
 E) \$1 billion.
- 43) Countries with higher than average unemployment rates have _____ compared to the United States. _____ 43) _____
 A) less regulated labor markets.
 B) lower levels of technology.
 C) more generous unemployment benefits and more regulated labor markets.
 D) have a higher labor force participation rate.
 E) higher levels of technology.
- 44) To be considered unemployed, a worker must have had _____ 44) _____
 A) no employment during the week before the survey and be actively looking for a job.
 B) part-time employment while actively looking for a full-time job.
 C) no employment during the day before the survey and be actively looking for a job.
 D) no employment during the week before the survey and be actively looking for a job while a student.
 E) Both answers A and B are correct.

Year	CPI	Nominal Wage Rate (dollars)	Nominal Interest Rate (percent)
2009	100	15.00	3
2010	95	15.00	4
2011	103	17.00	9

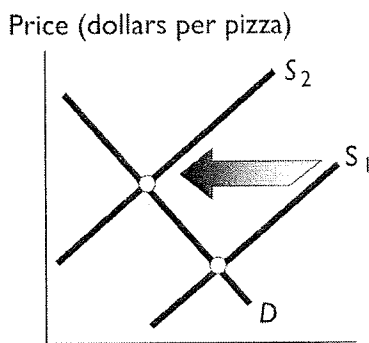
- 45) The table above has information about the CPI, nominal wage rate, and nominal interest rate for the country of Syldavia for the years 2009 to 2011. The reference base year is 2010. The inflation rate in Syldavia from 2010 to 2011 was _____
- A) 4.0 percent.
 - B) 10.3 percent.
 - C) 8.0 percent.
 - D) 3.0 percent.
 - E) 8.4 percent.
- 46) In 1998, Pablo earned \$200 per week at his job. In 2008, Pablo earned \$240 per week. If the CPI in 1998 was 100 and the CPI in 2008 was 152, then _____
- A) the 1998 wage measured in 2008 dollars is \$157.89
 - B) the 1998 wage measured in 2008 dollars is \$131.58
 - C) the 1983 wage measured in 1994 dollars is \$100.
 - D) Pablo was better off in 2008 because his weekly wage was higher.
 - E) the 2008 wage measured in 1998 dollars is \$157.89.
- 47) U-4, U-5 and U-6 are _____
- A) all broader measures of the unemployment rate.
 - B) all narrower measures of the unemployment rate.
 - C) narrower measures of the labor force participation rate.
 - D) broader measures of the labor force participation rate.
 - E) not used by the Bureau of Labor Statistics because they include too much variability.
- 48) To measure the CPI, the BLS economic assistants check the prices of _____
- A) some of the consumer goods but none of the services produced in a given year.
 - B) about 80,000 goods and services each quarter.
 - C) only the prices of the goods and services whose prices have changed.
 - D) about 80,000 goods and services each month.
 - E) all the goods and services produced in a given year.



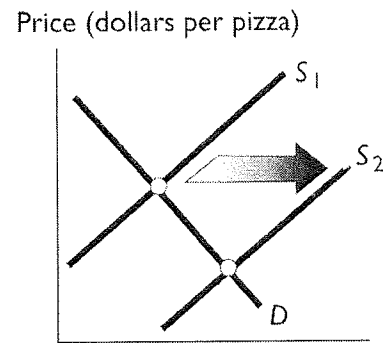
Quantity (pizzas per month)
Figure A



Quantity (pizzas per month)
Figure B



Quantity (pizzas per month)
Figure C



Quantity (pizzas per month)
Figure D

- 49) Pizza is a normal good. Which figure above shows the effect of a decrease in consumers' incomes? 49) _____
- A) Figure A
 - B) Figure B
 - C) Figure C
 - D) Figure D
 - E) Both Figure B and Figure C
- 50) Which figure above shows the effect of an increase in the cost of the tomato sauce used to produce pizza? 50) _____
- A) Figure A
 - B) Figure B
 - C) Figure C
 - D) Figure D
 - E) Both Figure B and Figure C