

Name: _____

Economics 201 - Macroeconomics
Midterm examination I
Fall 2019

1A. Draw a hypothetical supply and demand curve for crates of tomatoes for the U.S. per month. **Label each** axis correctly and show the equilibrium live for price and quantity. (2)

1B. Suppose Mexico become angry at the U.S. and stopped all tomato shipments to the U.S. What would happen to the supply curve in the above chart? What would happen to the demand curve?

Supply curve:

_____ Shift right

_____ Shift left

_____ no change

Demand Curve:

_____ Shift right

_____ Shift left

_____ no change

Would the price you pay for tomatoes be likely to rise or fall?

_____ rise

_____ fall

_____ no change

Would the quantity of tomatoes sold in the U.S. be likely to rise or fall?

_____ rise

_____ fall

_____ no change

Would the Consumer Price level in the U.S. be likely to rise or fall ?

_____ rise

_____ fall

_____ no change

1C. Is high quality entrepreneurship usually important for the success of a **nonprofit** private firm?

_____ yes

_____ no

2A. Who, among the following, are considered unemployed (*read the question carefully*) (2)?

- A Ph.D. in economics working as a waiter in a restaurant
- a person who skims the help wanted ads once a week while drawing unemployment compensation
- a person who is confined to a nursing home
- a volunteer worker at a hospital who is not looking for paid employment
- a housewife who receives \$25 per week for watching a neighbor's child after school
- a seasonal farm worker who is laid off during the off season but who continues to seek employment

2B. Who of the following are included in the *civilian labor force* in the U.S. as reported by the Department of Labor (3)?

- a 75 year old farmer who sells vegetables at a roadside stand
- a 15 year old student who maintains a lawn service business earning \$100 per week
- a retired general who is currently a consultant to a television news agency.
- a member of the military police of the U.S. army stationed in California
- the vice president of the United States
- A prisoner in the state penitentiary who is paid for making license plates

2C. If there are 100 women age 16 and over in Podunk county, USA, of whom 60 are employed and 10 are unemployed: what is the *labor force* participation rate of women in Podunk County?

- .40
- .50
- .60
- .70

What is the unemployment rate among women in Podunk County? -**THINK**

- .20
- .143
- .857
- .50

2D. Many business become incorporated because (2):

- Their customers will have more confidence in the product of the business
- it limits the liability of the owners
- It makes it easier to raise money to expand the business
- the government requires businesses to incorporate once they reach a high level of gross revenues

2E. The purpose of the Consumer Price Index (CPI) is to measure:

- the amount of growth of all goods and services in the country
- the increase in prices of all goods and services in the country
- the increase in prices only for those goods and services that the average family is believed to consume
- the increase in the amount of only those goods and services that the average family is believed to consume

3A. Suppose the percentage rise in real GDP between 2010 and 2011 was 6% *measured in 2010 prices* and 10% *measured in 2011 prices*. *Show the calculation* that would be made to calculate a chain link measure of the growth of *real output* between 2010 and 2011.

3B. If the **nominal** interest rate is 6%, and the *rate of inflation* is 3%, what is the **real** interest rate?

3C. Name one group who is likely to be hurt by inflation and one group who is likely to be helped.
Helped _____

Hurt _____

3D. Give one example of a multinational firm. _____

3E. Which of the following are likely to cause *cost-push inflation* (3)?

- _____ a rise in the price of oil
- _____ a reduction in the federal income tax
- _____ an increase in the amount that a worker can produce due to higher technology.
- _____ an increase in government safety standards for lawnmowers
- _____ an increase in the rents charged to small businesses
- _____ The U.S. expands its military capacity
- _____ the U.S. worker becomes more skilled

3F. Which of the following is likely to cause **demand- pull** inflation (3)

- _____ The U.S. substantially increases public spending on infrastructure (roads, bridges, airports, etc) when unemployment is low
- _____ U.S. corporation income taxes are increased to reduce the national deficit
- _____ Exports rise sharply when unemployment is low
- _____ Americans become optimistic about the future of the economy when unemployment is low
- _____ the Price of oil falls further when unemployment is low
- _____ a rise in unemployment

3G. Will increasing automation

- _____ cause unemployment by reducing the need for workers on the automated jobs
- _____ raise the productivity of the workers on the automated jobs
- _____ be likely to raise the earnings of workers on the automated jobs
- _____ all of the above

3F. If I wished to measure the “value added” of a business during a year, which of the following would I *not* include:

- _____ wages and commissions paid to sales persons
- _____ the cost of supplies purchased from other firms to produce the goods
- _____ advertising
- _____ profits

4A. List *one* example of an external cost that might be created by a manufacturing firm.

4B. Many corporations strive to produce the best quality possible of goods, and the lowest possible price. They normally do this because:

They are mandated by the Federal and State governments to do so
 They believe that their customers should always be given the best and the least expensive product possible

They fear that if they do not provide the best quality possible of goods at the lowest possible price, their customers will buy more goods from their competitors and reduce their profits

4C. List one factor which influences the quality, i.e., the ability to produce, of a worker.

4D. In what type of economy does the “invisible hand” described by Adam Smith operate?

Centralized/socialist economy
 decentralized/capitalistic economy

4E. If prices increased, but output *remained constant*, which of the following would rise:

Real GDP
 Nominal GDP

4F. Which of the following is **not** considered a part of Gross National Product:

Capital consumption (depreciation)
 purchases of stocks and bonds
 inventory increase

4G. Which of the following is true? (3)

A. Producers will usually produce the goods/services that yield the largest profit.
 B. Consumers usually do not care about whether producers make a profit.
 C. Producers will never mislead consumers in order to make sales.
 D. Consumers will usually pay a higher price if necessary to prevent a producer from going out of business.
 E. Consumer sovereignty leads to higher quality and lower priced goods

4H. Which type of unemployment is most effectively reduced by vocational training?

Demand unemployment
 frictional (normal) unemployment
 mismatch between the job skills needed and the skills of unemployed workers
 Seasonal unemployment

4I. Define the term “ceteris paribus” in no more than one phrase or sentence.

- 5A. Which type of unemployment is most effectively reduced by vocational training?
- Demand/cyclical unemployment
 - frictional (normal) unemployment
 - mismatch between the job skills needed and the skills of unemployed workers
 - Seasonal unemployment

- 5B. list two actions that could be taken to expand the “production possibility frontier.”(2)

- 5C. While sitting in this class taking a midterm exam, give one example of an opportunity cost (Or tradeoff) that you are incurring.

- 5D. Disposable personal income in national income accounting is defined as::

- the amount of money a person has in the bank
- the amount of money a person has per year after adding earnings, profits, interest, and rents that he/she receives and subtracting mandatory taxes.
- the value of a persons bank accounts plus other stocks or bonds held that can be quickly sold
- the amount of money a person has per year after adding earnings, profits, interest, and rents that he/she receives

- 5E. Do measures of the change in prices from one year to the next take *full* account of changes in the quality of products?

- yes
- no

- 5F. Is it possible for **nominal** GDP to rise, while **real** GDP falls?

- Yes
- No

- 5G. Suppose there is a recession, creating a substantial amounts of demand/cyclical unemployment. Which of the following actions would create jobs for demand/cyclically unemployed persons. (2)

- raise personal income taxes
- Reduce unnecessary state and federal regulations on business
- lower social security taxes
- Lower Federal spending

- 5H. A resource is regarded as scarce if _____

- 5I. . Are part-time workers who wish to work full time but cannot find full time employment counted as unemployed by the most commonly used measure of unemployment in the US?

- Yes
- No

6A. . If earnings = 300, consumption = 800, government =400, profits = 300, Investment = 400, exports = 500, imports = 600, and capital consumption = 100, what is:

gross domestic product _____

net domestic product _____

6B. *Laissez-faire* capitalism means that:

- the government will act to ensure that capitalism always works well
- the government will not interfere with market place economics, e.g., the producing and selling of good and services
- the government will prevent the failure of private firms

6C. If intended investment was 300 and unintended investment (i.e., unintended change in inventory) was 50, how much would be counted as gross investment in the national income accounts.

6D. Which of the following is not considered a part of Gross National Product:

- Capital consumption (depreciation)
- Social Security pensions
- inventory change

6E. List the three basic categories of scarce resources. (3)

6G. Suppose there is a great increase in output in the production of oranges. Would this result in a shift of the demand curve, or a movement along the *demand curve* for oranges?

- shift
- movement

6D. An implicit price deflator is used primarily to estimate the:

- change in real GDP over time
- change in real GDP and the price of a representative market basket of goods and services over time
- change in the price of a representative market basket of goods and services over time

6E. If the car of a friend breaks down and you give him a ride to class so that he does not call a taxi, is the value of the ride included in nominal GDP

- yes
- no

6F. If he had called a taxi, would the taxi fare be included in nominal GDP?

- yes
- no

7A. Which type of unemployment increased dramatically in the U.S. during the **recent great recession**?

- cyclical/demand unemployment
- mismatch between job requirements and a lack of vocational skills
- seasonal unemployment
- frictional unemployment

7B. Does the civilian labor force, as measured by the Department of Labor, include persons counted as employed and unemployed, or only persons counted as employed?

- only employed
- employed and unemployed

7C. People often seek jobs that pay well. Identify one other factor which may influence their choice of a job.

7D. . When unemployment is **very low**, what are usually the two most common causes of the remaining unemployment among the unemployed? (2)

- frictional
- mismatch between job skills of workers and needs of employers
- lack of demand for goods and services - cyclical demand unemployment

7E. The circular flow of resources diagram can be used to show the validity of Says Law, i.e. that

- the productions of goods and services is **always** equal to the amount that people **want** for Consumption, intended Investment, Government, and the difference between imports and exports
- the amount produced will **generate** enough income to purchase everything produced
- rich countries will **always** export more than poor economies
- government production of goods and services will always reduce the growth of GDP

7F. If a corporation emits harmful carbon in the air, would it be socially preferable to:

- tax the corporation so that the company bears higher costs of production
- not** tax the corporation in order to not interfere with competition among producers

7G. Which of the following types of unemployment could be good for economic growth?

- Demand unemployment
- frictional (normal) unemployment
- mismatch between job skills needed by employers and the job skills of the unemployed
- Seasonal unemployment

7H. If you paid a contractor \$5,000 for painting your home, would this be included in:

- nominal GDP
- real GDP
- both nominal and real GDP
- neither nominal or real GDP