

ECON 306 – INTERMEDIATE MACRO ECONOMICS

MID TERM

NAME OF STUDENT

1. A farmer grows a bushel of wheat and sells it to a miller for \$1.00.
The miller turns the wheat into flour and sells it to a baker for \$3.00.
The baker uses the flour to make a loaf of bread and sells it to an engineer for \$6.00.
The engineer eats the bread.

Compute

- a) *value added at each stage of production*
- b) *GDP*

	2002		2003		2004	
	P	Q	P	Q	P	Q
good A	\$30	900	\$31	1,000	\$36	1,050
good B	\$100	192	\$102	200	\$100	205

2. From the above table:
 - a. Compute nominal GDP in each year
 - b. Compute real GDP in each year using 2002 as the base year.
3. What is meant by unemployment? Discuss the rate of unemployment. How does it affect the economy? What government programs are offered in this regard?
4. Define
 - a. Minimum wage law
 - b. Labor unions
 - c. Life Expectancy
 - d. Infant mortality
5. Discuss the Solow Model. How does saving, consumption, production, income and population affect economic growth?

MULTIPLE CHOICE QUESTIONS

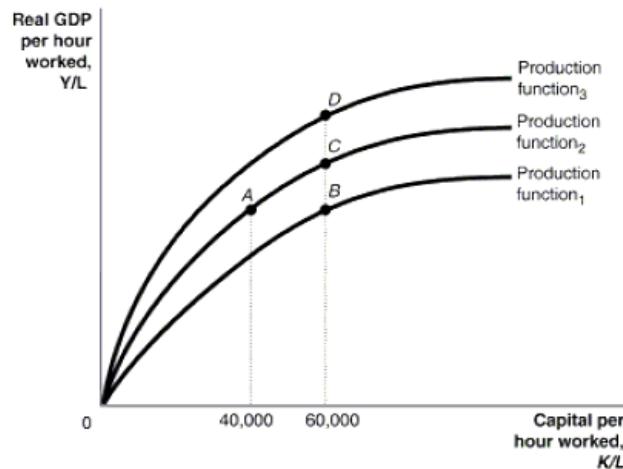
1) An economic growth model explains 1) _____

- A) how changes in the money supply affect real interest rates.
- B) changes in real GDP per capita in the long run.
- C) changes in government tax policies over time.
- D) the growth rate of the price level over time.

2) When an economy faces diminishing returns, 2) _____

- A) the slope of the per-worker production function becomes flatter as capital per hour worked increases.
- B) the per-worker production function shifts to the left.
- C) the per-worker production function shifts to the right.
- D) the slope of the per-worker production function becomes steeper as capital per hour worked increases.

Figure



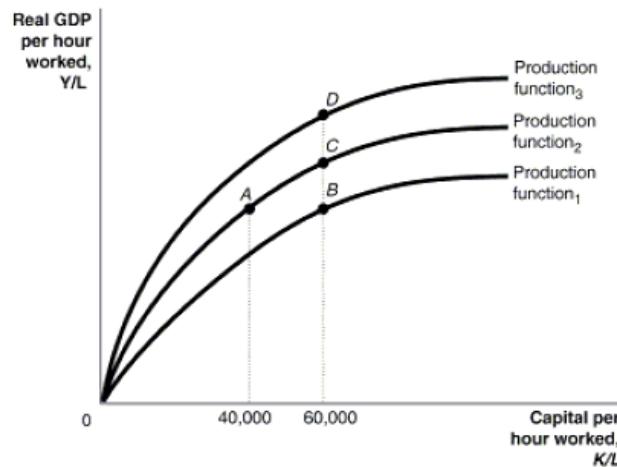
3) Refer to Figure 22-1. Using the per-worker production function in the figure above, the largest changes in an economy's standard of living would be achieved by a movement from 3) _____

- A) B to C to D.
- B) C to B to A.
- C) A to B to C.
- D) D to C to B.

4) If the per-worker production function shifts down, 4) _____

- the per-worker production function becomes steeper.
- positive technological change has occurred in the economy.
- an economy can increase its real GDP per hour worked without changing the level of capital per hour worked.
- it now takes more capital per hour worked to get the same amount of real GDP per hour worked.

Figure



5) Refer to Figure 22-1. Diminishing marginal returns is illustrated in the per-worker production function in the figure above by a movement from 5) _____

- A to C.
- C to D.
- B to C.
- D to C.

6) The key idea of the aggregate expenditure model is that in any particular year, the level of GDP is determined mainly by 6) _____

- export spending.
- government spending.
- investment spending.
- the level of aggregate expenditure.

7) If inventories decline by more than analysts predict they will decline, this implies that 7) _____

- there is no relationship between actual investment spending and planned investment spending.
- actual investment spending was greater than planned investment spending.
- actual investment spending was less than planned investment spending.
- actual investment spending was equal to than planned investment spending.

8) _____ in taxes will decrease consumption spending, and _____ in transfer payments will increase consumption spending. 8) _____

- An increase; a decrease
- An increase; an increase
- A decrease; a decrease
- A decrease; an increase

9) _____ is defined as the value of a household's assets minus the value of its liabilities.

A) Personal household consumption B) Household income
C) Planned household investment D) Household wealth

9) _____

Table

Consumption (dollars)	Disposable Income (dollars)
\$1,200	\$3,000
2,100	4,000
3,000	5,000

10) Refer to Table 23-2. Given the consumption schedule in the table above, the marginal propensity to consume is

A) 0.1. B) 0.3. C) 0.6. D) 0.9.

10) _____

11) _____ describes the relationship between consumption spending and disposable income.

A) The liquidity trap B) Household wealth
C) The consumption function D) The paradox of thrift

11) _____

12) If disposable income falls by \$50 billion and consumption falls by \$40 billion, then the slope of the consumption function is

A) 1.20. B) 0.80. C) 0.70. D) 0.10.

12) _____

13) The marginal propensity to save is defined as

A) saving divided by disposable income.
B) the change in saving divided by the change in disposable income.
C) disposable income divided by saving.
D) the change in disposable income divided by the change in saving.

13) _____

14) If firms find that consumers are purchasing more than expected, which of the following would you expect?

A) Aggregate expenditure will likely be greater than GDP.
B) The economy will adjust to macroeconomic equilibrium as inventories rise, and production and employment fall.
C) The economy will adjust to macroeconomic equilibrium as inventories fall, and production and employment fall.
D) Aggregate expenditure will likely be less than GDP.

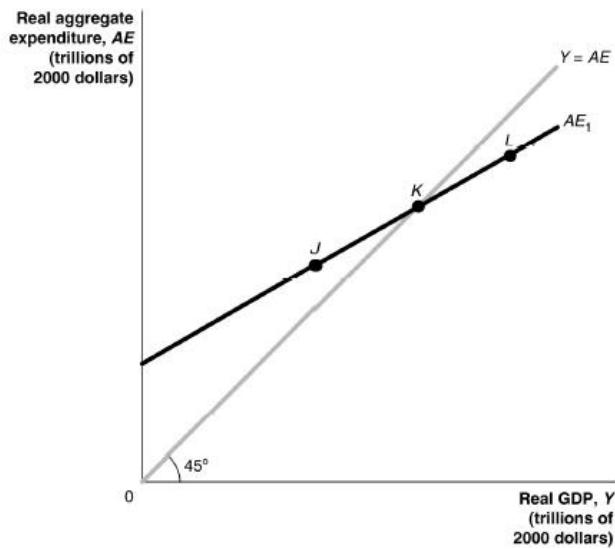
14) _____

15) Household spending on goods and services is known as

A) government purchases. B) net exports.
C) consumption spending. D) planned investment spending.

15) _____

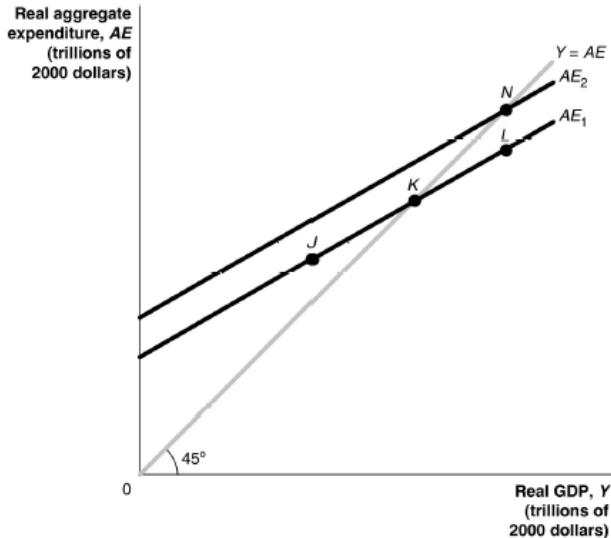
Figure



16) Refer to Figure 23-1. According to the figure above, at what point is aggregate expenditure greater than GDP?

A) J
B) K
C) L
D) none of the above

16) _____



17) Refer to Figure 23-2. If the U.S. economy is currently at point N, which of the following could cause it to move to point K?

- A) Government expenditures increase.
- B) The firm's cash flow rises as profits rise.
- C) Household wealth rises.
- D) Households expect future income to decline.

17) _____

18) Which of the following will cause a direct increase in consumption spending?

A) an increase in government spending	B) a decrease in net export spending
C) an increase in planned investment	D) an increase in disposable income

18) _____

19) When aggregate expenditure = GDP,

A) net exports equal zero.	B) the federal budget is balanced.
C) saving equals zero.	D) macroeconomic equilibrium occurs.

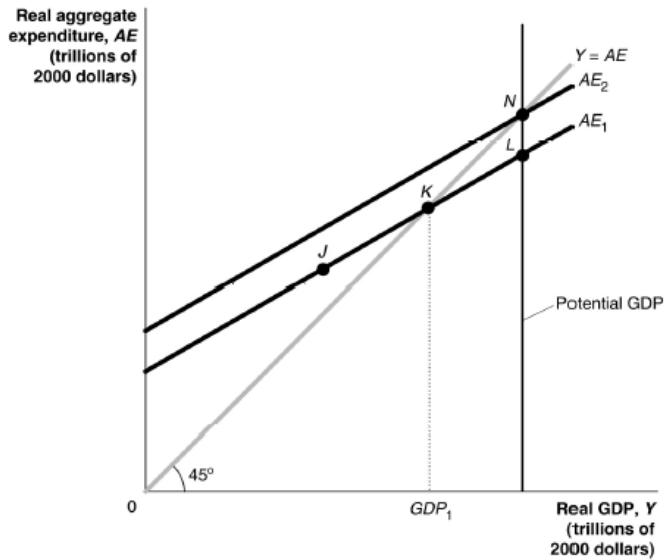
19) _____

20) On the 45-degree line diagram, for points that lie below the 45-degree line,

- A) planned aggregate expenditure is less than GDP.
- B) planned aggregate expenditure is equal to GDP.
- C) planned aggregate expenditure is less than aggregate income.
- D) planned aggregate expenditure is greater than GDP.

20) _____

Figure



21) Refer to Figure 23-4. Potential GDP equals \$100 billion. The economy is currently producing GDP_1 which is equal to \$90 billion. If the MPC is 0.8, then how much must autonomous spending change for the economy to move to potential GDP?

A) -\$18 billion B) -\$2 billion C) \$2 billion D) \$18 billion

21) _____

22) Which of the following is a true statement about the multiplier?

A) The multiplier rises as the MPC rises.
 B) The multiplier effect does not occur when autonomous expenditure decreases.
 C) The smaller the MPC, the larger the multiplier.
 D) The multiplier is a value between zero and one.

22) _____

23) An increase in the price level results in a(n) _____ in the quantity of real GDP demanded because _____.

A) increase; a higher price level reduces consumption, investment, and net exports.
 B) decrease; a higher price level increases consumption, investment, and net exports.
 C) decrease; a higher price level reduces consumption, investment, and net exports.
 D) increase; a higher price level increases consumption, investment, and net exports.

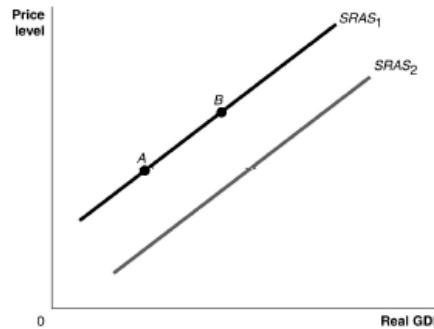
23) _____

24) An increase in the price level will

A) move the economy up along a stationary aggregate demand curve.
 B) move the economy down along a stationary aggregate demand curve.
 C) shift the aggregate demand curve to the right.
 D) shift the aggregate demand curve to the left.

24) _____

Figure



25) Refer to Figure 24-2. *Ceteris paribus*, an increase in the labor force would be represented by a movement from

- A) SRAS₁ to SRAS₂.
- B) SRAS₂ to SRAS₁.
- C) point A to point B.
- D) point B to point A.

25) _____

GOOD LUCK !