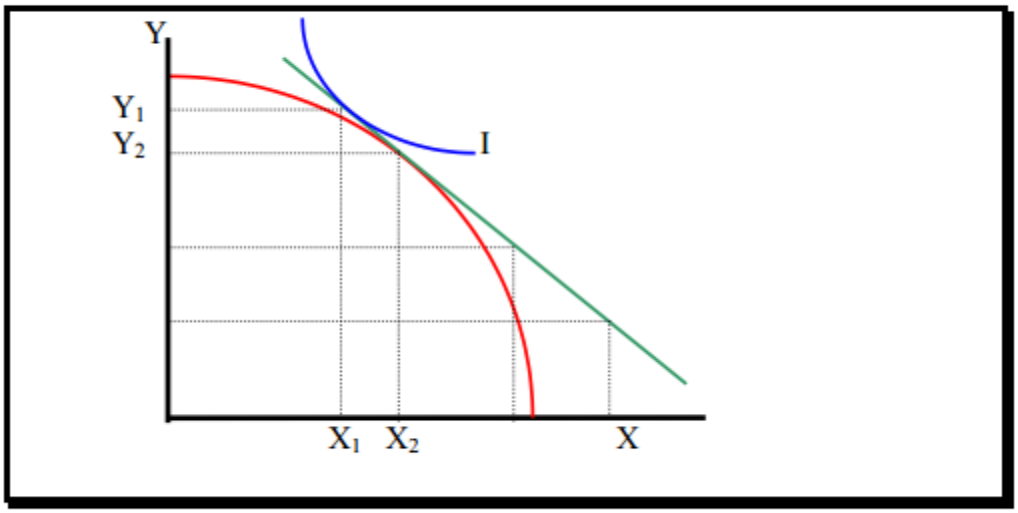
ANSWER THE FOLLOWING QUESTIONS

1. Is the country depicted in the plot below an importer of good *x* or good *y* and in what amounts?



2. What is the value of the exports and imports for the country depicted above?
3. Define the term expected inflation. Also discuss why inflation is bad? What are the costs of inflation?
4. Which of these are characteristic of a gold standard as historically practiced? More than one answer may be correct.
   (a) Fluctuating foreign exchange rates.
   (b) Fixed exchange rates among different currencies.
   (c) Inflationary central bank tendencies.
   (d) Free convertibility of currencies into one another.
   (e) Fixed rates of economic growth.
   (f) Requirements for occasional explicit cooperation among governments.
   (g) Strong public distrust in the value of the national currency.
   (h) The impossibility of running perpetual trade surpluses.

5. How does a fixed exchange rate help a weak central bank?

MULTIPLE CHOICE

1.

Long–run macroeconomic equilibrium occurs when
A) aggregate demand equals short–run aggregate supply and they intersect at a point on the long–run supply curve.
B) structural and frictional unemployment equals zero.
C) output is above potential GDP.
D) aggregate demand equals short–run aggregate supply.

2.

Because of diminishing returns, an economy can continue to increase real GDP per hour worked only if
A) the per–worker production function shifts downward.
B) there is technological change.
C) there continue to be decreases in capital per hour worked.
D) there are decreases in human capital.

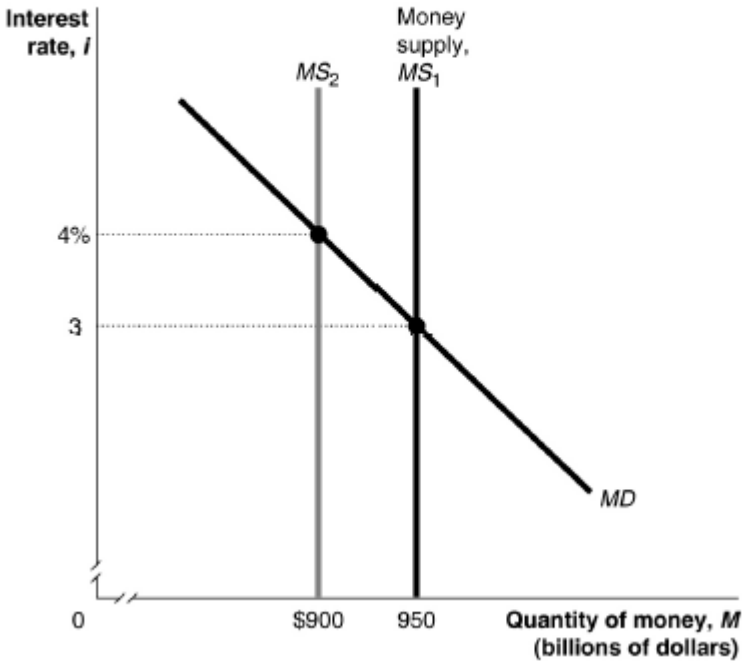
3.

An unplanned increase in inventories results from
A) a decrease in planned investment.
B) actual investment that is less than planned investment.
C) an increase in planned investment.
D) actual investment that is greater than planned investment.

4.

) The level of aggregate supply in the long–run is*not* affected by
A) changes in the number of workers.
B) changes in the price level.
C) changes in the capital stock.
D) changes in technology.

Figure



5.

Refer to Figure 24-3. Suppose the economy is at point *C*. If government spending decreases in the economy, where will the eventual long-run equilibrium be?

A) *A* B) *B* C) *C* D) *D*

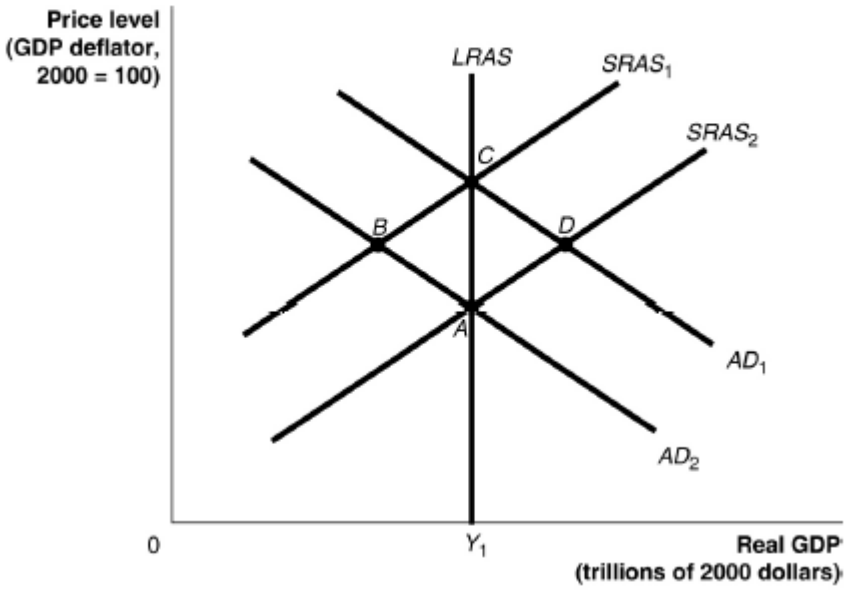
6.

What is potential GDP?

A) It is the level of GDP at which inflation is constant.
B) It is the difference between current GDP and maximum GDP.
C) It is the level of real GDP in the long run.
D) It is the level of real GDP in the short run.

.7.

Figure



Refer to Figure 24-3. Suppose the economy is at point *A*. If the economy experiences a supply shock, where will the eventual short-run equilibrium be?

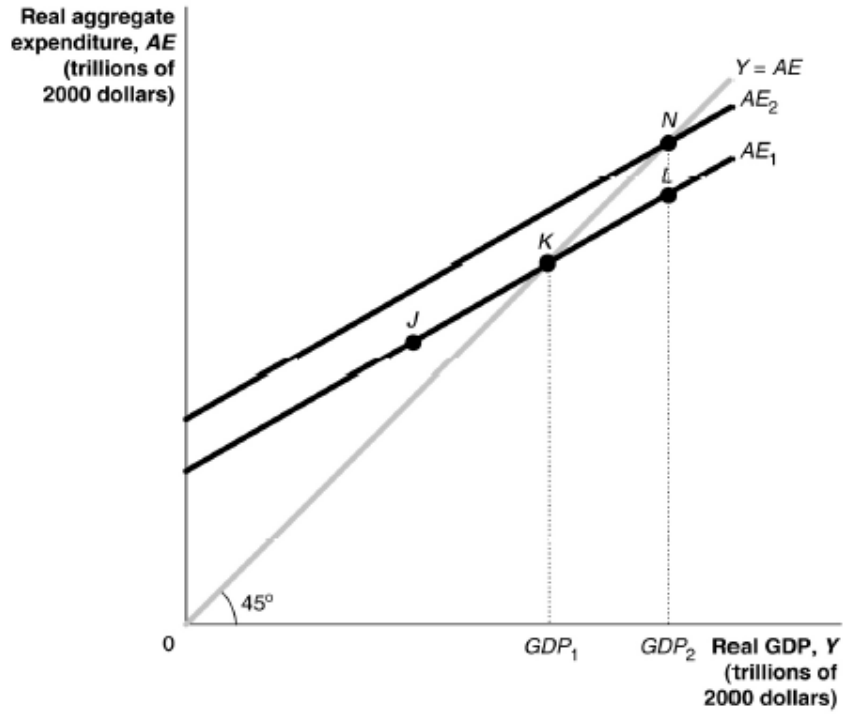
A) *A* B) *B* C) *C* D) *D*

8.

Refer to Figure 24-3. Which of the points in the above graph are possible long-run equilibria?

A) *A* and *D* B) *A* and *B* C) *B* and *D* D) *A* and *C*

Figure



9.

Refer to Figure 23-3. Suppose that investment spending increases by $10 million, shifting up the aggregate expenditure line and GDP increases from GDP_1 to GDP_2. If the *MPC* is 0.9, then what is the change in GDP?

A) $9 million B) $10 million C) $90 million D) $100 million

10.

If planned aggregate expenditure is less than total production,

A) the economy is in equilibrium.
B) actual inventories will equal planned inventories.
C) GDP will increase.
D) firms will experience an unplanned increase in inventories.

11.

If an increase in investment spending of $50 million results in a $400 million increase in equilibrium real GDP, then

A) the multiplier is 0.125.
B) the multiplier is 3.5.
C) the multiplier is 8.
D) the multiplier is 50.

12.

Inventories refer to

A) goods that have been produced but not yet sold.
B) goods that have been produced and sold in the same year.
C) goods that have been planned but not yet produced.
D) goods which have been presold before they are produced.

13.

Suppose there has been an increase in investment. As a result, real GDP will _____ in the short run, and _____ in the long run.

A) decrease; decrease further
B) increase; increases further
C) increase; decrease to its initial value
D) decrease; increase to its initial level

14.

The multiplier is calculated as the

A) change in real GDP / change in induced spending.
B) change in autonomous expenditure / change in real GDP.
C) change in nominal GDP / change in autonomous expenditure.
D) change in real GDP / change in autonomous expenditure.

15.

Which of the following equals the expenditure side of GDP?

A. consumption + government purchases + saving + taxes.
B. consumption + investment + government purchases + net exports.
C. consumption + investment + government purchases + net imports
D. wages + rent + interest + profits + indirect business taxes.

16. Gross domestic product

A. includes all the goods and none of the services produced in an economy in a given time period.

B. measures the value of the aggregate production of goods and services in a country during a given time period.
C. measures the value of labor payments generated in an economy in a given time period.
D. is generally less than federal expenditure in any time period.

17. Which of the following would cause the growth in real GDP to understate the improvement in the standard of living over time?
A. if the average person increases hours worked over time.
B. if the environment is improving over time.
C. if the population grows over time
D. all of the above.

Suppose that an economy produces only apples and oranges and the prices and quantities of each are given in the table below.

Year	Price of oranges	Quantity of Oranges	Price of apples	Quantity of Apples
2010	2	400	2	800
2012	3	800	4	1200

18. Assuming that 2012 is the base year, real GDP in 2010 is _____ and nominal GDP in 2010 is _____.

A. $2,400; more $2,400
B. $4,000; more than $4,000
C. $2,400 less than $2,400
D. $4,000 less than $4,000
E. none of the above.

19. Assuming that 2012 is the base year, the GDP deflator (rounded to the nearest integer) is ____ in 2010 and _____ in 2012.
A. 60; 100
B. 100; 60
C. 100; 167
D. 167; 100

20. As the economy strengthens, some "discouraged workers" reenter the labor market and begin searching for jobs. Assuming that none of them initially find jobs, this would cause the unemployment rate to ___, the labor force participation rate to ____, and the employment-population ratio to ____.
A. rise; rise; fall
B. not change; rise; fall
C. rise; not change; not change
D. none of the above

21. During expansions, the labor force participation rate tends to
   A. rise, but not by as much as the employment-population ratio.
   B. rise by more than the employment-population ratio.
   C. fall whereas the employment-population ratio rises.
   D. none of the above.

22. Suppose that over the next year your nominal wage (in 2000 dollars) rises from $10 to $12 and the CPI rises from 120 to 130. Based on this, your real wage ___.
   A. fell by more than 5%
   B. fell by less than 5%
   C. rose by less than 15%
   D. rose by more than 15%

23. Between 2000 and 2013, the CPI rose from 169.3 to 231.3. This implies that $1 in 2000 would buy as much as ____ in 2013.
   A. $2.31
   B. $1.69
   C. $1.37
   D. none of the above

24. Between 2000 and 2013, the CPI rose from 169.3 to 231.3. This implies that the average annual rate of inflation over the period was:
   A. 1.9%
   B. 2.4%
   C. 3.2%
   D. 3.7%

25. If the price of gasoline rises dramatically,

   A. the quantity demanded for cars will decrease.
   B. the demand for commuter train rides will decrease.
   C. the demand for cars will decrease.
   D. the quantity of commuter train rides demanded will increase.