

Macroeconomic Principles
First Exam — Spring 2007
Schellberg

PART 1 (60 points)

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

In order to acquire more of a good we must sacrifice production of another good (because resources are in limited supply). This illustrates the concept of:

- a. exchange.
- b. *ceteris paribus*.
- c. opportunity cost.
- d. specialization.
- e. the division of labor.

2. Specialization is a way for:

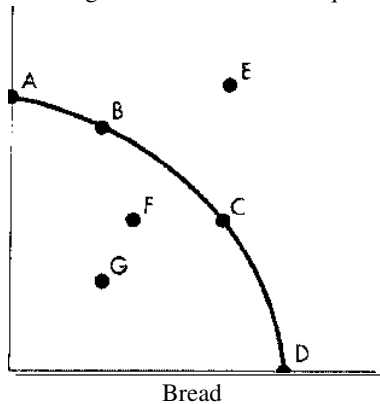
- a. individuals to make the best use of resources by devoting themselves to one primary productive activity.
- b. society to become wealthier while not using their resources.
- c. people to avoid having to trade.
- d. increasing one's opportunity cost for an activity.

3. Specialization:

- a. leads to greater self-sufficiency.
- b. can lead to an increase in overall production.
- c. is always the result of an inefficient use of resources.
- d. allows workers to develop skills by working on a large number of tasks.
- e. results in both a) and b).

Diagram 3-1

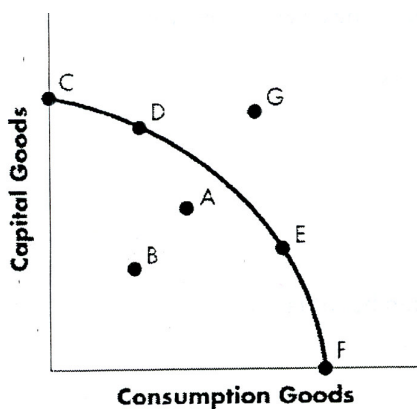
Use the diagram below answer the question.



4. Refer to Diagram 3-1. Along the production possibilities curve, the most efficient point of production depicted is:
- Point B.
 - Point C.
 - Point D.
 - Point G.
 - All points on the production possibilities curve are equally efficient.
5. Refer to Diagram 3-1. A movement from Point B to Point C:
- involves sacrificing bread in order to produce a greater quantity of wine.
 - involves sacrificing wine in order to produce a greater quantity of bread.
 - involves no sacrifice, as the opportunity cost of production is zero everywhere along the production possibilities curve.
 - will increase the level of unemployment in the economy.
 - will decrease the level of unemployment in the economy.

Diagram 3-2

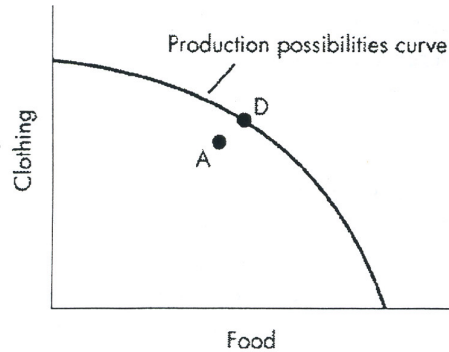
Use the following diagram to answer the question.



6. Refer to Diagram 3-2. Considering only points on the frontier, the economy will experience the least amount of economic growth over time (*ceteris paribus*) if it chooses to produce at:
- Point A.
 - Point C.
 - Point E.
 - Point F.
 - Point G.
7. Refer to Diagram 3-2. Moving from Point _____ to Point _____ will result in an increase in the production of capital goods, but a decrease in the production of consumption goods this period.
- B; A
 - D; G
 - A; B
 - C;
 - E; D

Diagram 3-4

Use the following diagram to answer the question.



8. Refer to Diagram 3-4. In the diagram above, Point A is:
- unattainable.
 - efficient.
 - preferable to Point D.
 - inefficient.
9. Excessive unemployment of resources is illustrated using a production possibilities curve by:
- an inward shift of the curve.
 - an outward shift of the curve.
 - a movement along the curve in a northwest direction.
 - a point inside the curve.
 - a point out beyond the curve.
- ___ 10. A technological advance that increases the productivity of all inputs is best illustrated as:
- a movement along the production possibilities curve.
 - a flattening of the production possibilities curve.
 - an inward shift of the production possibilities curve.
 - an outward shift of the production possibilities curve.
- ___ 11. The three major macroeconomic goals of nearly every society are:
- maintaining stable prices, reducing interest rates, and achieving a high rate of economic growth.
 - maintaining high levels of employment, increasing the supply of money, and achieving a high rate of economic growth.
 - maintaining stable prices, maintaining high levels of employment, and achieving high, rates of economic growth.
 - achieving high rates of economic growth, reducing unemployment, and reducing interest rates.
- ___ 12. The unemployment rate is defined as:
- unemployed workers plus discouraged workers, divided by the total population over the age of sixteen.
 - part-time workers plus full-time workers, divided by the total population over the age of sixteen.
 - the percentage of the labor force that is unemployed.
 - the percentage of the population over the age of sixteen that is unemployed.

13. The unemployment rate may underestimate the true extent of unemployment if:
- employees increase the number of hours they work overtime.
 - many people become discouraged and cease looking for work.
 - there are a large number of people working in the underground economy.
 - any of the above occur.
- _____ 14. A discouraged worker is:
- one who opts to quit work to attend college.
 - one who opts to quit searching for work after unsuccessfully seeking employment.
 - a part-time worker who would like to work more hours.
 - none of the above.
- _____ 15. The unemployment rate in a town in which 65,400 persons are employed and 11,000 are unemployed equals:
- 11 percent.
 - 14.4 percent.
 - 16.8 percent.
 - 20.2 percent.
 - cannot be determined from the information provided.
- _____ 16. A colle^e student who is enrolled in school full-time and not seeking employment is considered:
- out of the labor force.
 - unemployable, and not counted in official statistics.
 - employed in leisure.
 - underemployed.
 - in the labor force.
17. After unsuccessfully looking for full-time work for six weeks, Joey accepted a part-time job. How does the official unemployment rate fail to reflect the true degree of unemployment in this case?
- It continues to treat Joey as unemployed because he is only employed part-time.
 - Joey is viewed to be a discouraged worker and as such is not considered part of the labor force.
 - Since Joey was out of work for only six weeks, he was never officially considered unemployed.
 - Even though Joey is working less than he wants to work, he is no longer considered unemployed.
- _____ 18. A welder who quits his job and moves from Houston to Buffalo to try to get a better welding job is said to be:
- frictionally unemployed.
 - underemployed.
 - cyclically unemployed.
 - structurally unemployed.
 - a discouraged worker.
- _____ 19. Unemployment caused by a contraction in the economy is called:
- frictional unemployment.
 - cyclical unemployment.
 - structural unemployment.
 - seasonal unemployment.
20. In recent years, economists have come to believe that full employment in the U.S. economy occurs at an unemployment rate between:
- 1.0 and 2.0 percent.
 - 2.5 and 3.5 percent.
 - 4.5 and 5.5 percent.
 - 6.5 and 7.5 percent.
 - 9 and 10.0 percent.

21. When an economy is operating at full employment:
- the unemployment rate will equal zero.
 - frictional unemployment will equal zero.
 - cyclical unemployment will equal zero.
 - structural unemployment will equal zero.
 - both b) and d) are correct.
22. Inflation will be least harmful if:
- interest rates are not adjusted accordingly when inflation occurs.
 - worker wages are set by long-term contracts.
 - it is correctly anticipated and interest rates adjust accordingly.
 - it is not fully anticipated.
23. Why are creditors harmed by unexpected inflation?
- Creditors receive lower nominal rates of interest when prices rise.
 - Creditors are paid back with more valuable dollars.
 - Creditors receive higher nominal rates of interest when prices rise.
 - Creditors are paid back money with less spending power than when it was originally loaned out.
24. The difference between the nominal interest rate and the rate of inflation is:
- the prime rate.
 - the real interest rate.
 - the discount rate.
 - coupon rate.

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PART II (40 points)

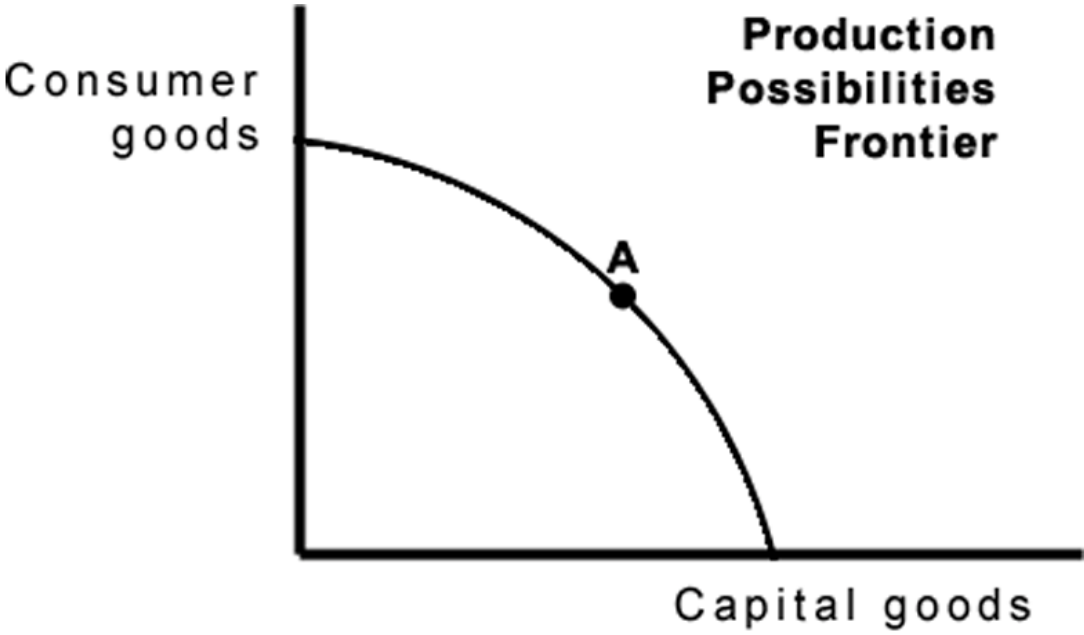
1. (19 points)

a. What are consumer goods?

b. What are capital (investment) goods?

c. What is human capital?

d. Suppose the nation wants to increase its spending on human capital this year, to exceed the amount currently be spent at point A on the graph. Show this change on the graph. (Label the new allocation "B".)



e. Suppose the government increases income taxes and uses the increased funds for greater spending on education. Pick one of the following and explain how the increased educational spending and taxation would affect the group in question. (Pick either i or ii.)

i) Household spending on consumer goods.

ii) Employment of teachers and employment of workers in professions other than teaching.

2. (7 points)

a. What are discouraged workers?

b. Explain this statement: "Because of the existence of discouraged workers, the measured unemployment rate understates the number of people who are unable to find work."

3. (14 points) Which of the following are employed? Which of the following are unemployed? Which of the following are out of the labor force? If none of the above apply, please state this.

a. A housewife who does not work outside the home

b. A housewife who has a part-time job in a day care center

c. A trained engineer who is working at McDonalds

d. An accountant who has relocated to Phoenix and has recently applied for a number of jobs in the area.

e. An 85-year old retiree who lives at home.

f. A 90 year old who is in a nursing home

g. A ten-year old child