

Macroeconomic Principles  
First Exam – Spring 2007  
Schellberg  
Answer Section

Multiple Choice

- 1: C
- 2: A
- 3: B
- 4: E
- 5: B
- 6: D
- 7: E
- 8: D
- 9: D
- 10: D
- 11: C
- 12: C
- 13: B
- 14: B
- 15: B
- 16: A
- 17: D
- 18: A
- 19: B
- 20: C
- 21: C
- 22: C
- 23: D
- 24: B

Macroeconomic Principles  
First Exam-Spring 2007  
Schellberg

PART II (40 points)

1. (19 points)

- a. What are consumer goods?

*Consumer goods are goods and services purchased by households for their personal benefit.*

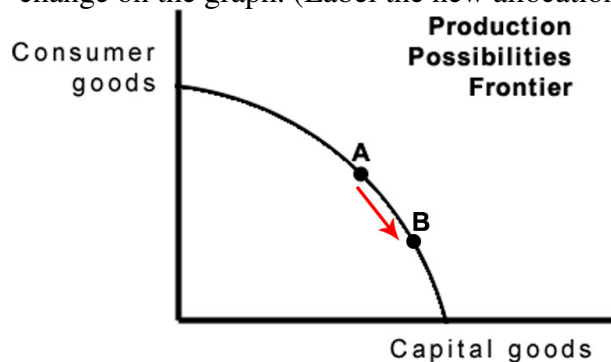
- b. What are capital (investment) goods?

*Capital goods are goods used in the production process that last more than one year (such as factories, technology, machines, but also education.)*

- c. What is human capital?

*Human capital is education, training and health care provided to workers that increases their skills and productivity in the marketplace.*

- 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.

*Most economists argue that higher taxes cause people to spend less, because they have less disposable income. Thus, they buy fewer consumer goods.*

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

*As more is spent on education, the number of teachers hired would likely increase. But since there is full employment, this would mean that workers would be drawn away from other professions. Employment in other professions would have to decrease.*

*Some may argue that the number of teachers would not increase, just their salaries. In this case, employment in teaching and non-teaching professions would remain unchanged.*

2. (7 points)

a. What are discouraged workers?

*Discouraged workers are those who have stopped looking for work, after an unsuccessful job search.*

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.

*Clearly, the discouraged workers are unable to find work to their liking. But they are counted as out of the labor force, so they are missed by the unemployment statistics.*

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  
*Out of the labor force*
  
- b. A housewife who has a part-time job in a day care center  
*Employed*
  
- c. A trained engineer who is working at McDonalds  
*Employed*
  
- d. An accountant who has relocated to Phoenix and has recently applied for a number of jobs in the area.  
*Unemployed*
  
- e. An 85-year old retiree who lives at home.  
*Out of the labor force*
  
- f. A 90 year old who is in a nursing home  
*None*
  
- g. A ten-year old child  
*None*