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Macroeconomic Principles (ECO 202) - V. II  
Exam I (Spring 2008-2009)

Name: \_\_\_\_\_

Time: 55 minutes

Please answer the following 45 Multiple Choice questions.

1. A ✓		24. B ✗
2. E ✓		25. C ✗
3. D ✓		26. A ✓
4. E ✓		27. D ✓
5. A ✗		28. F ✓
6. E ✓		29. A ✗
7. B ✓		30. C ✗
8. A ✓		31. D ✓
9. E ✓		32. D ✓
10. C ✓		33. E ✓
11. D ✓		34. D ✓
12. D ✓		35. A ✓
13. B ✗		36. C ✓
14. D ✓		37. B ✗
15. C ✓		38. A ✓
16. A ✗		39. D ✓
17. C ✓		40. D ✓
18. D ✓		41. A ✓
19. C ✓		42. E ✓
20. D ✓		43. A ✓
21. B ✓		44. B ✗
22. E ✗		45. B ✓
23. B ✓		

34. Bob's Barber Shop cut 3,000 heads of hair in the year 2005 and 3,100 in the year 2006. The price of a hair cut was \$7 in 2005 and \$8 in 2006. If the year 2005 is the base year, what was Bob's contribution to nominal GDP in the year 2006?

- A. \$21,000
- B. \$21,700
- C. \$25,000
- D. \$24,800
- E. \$24,000

35. Each person who is 16 years or older is considered to be in one of the following categories:

- A. employed, unemployed, or out of the labor force.
- B. part-time worker, full-time worker, or out of the labor force.
- C. employed, unemployed, or chronically unemployed.
- D. employed, unemployed, or discouraged worker.
- E. part-time worker, full-time worker, or unemployed.

36. A person 16 years or older who does not work, but is actively looking for work is officially classified as:

- A. a discouraged worker.
- B. employed.
- C. unemployed.
- D. chronically unemployed.
- E. out of the labor force.

37. A decrease in the unemployment rate can be the result of either \_\_\_\_\_ or \_\_\_\_\_, holding the other factors constant.

- A. fewer unemployed workers; more people in the labor force
- B. more unemployed workers; fewer people in the labor force
- C. fewer unemployed workers; fewer people in the labor force
- D. more employed workers; more people in the labor force
- E. more unemployed workers; more people in the labor force

38. The consumer price index for the current year measures the cost of a standard basket in the \_\_\_\_\_ year relative to the cost of the same basket in the \_\_\_\_\_ year.

- A. current; base
- B. base; current
- C. current; current
- D. base; base
- E. base; index

39. Suppose that the total expenditures for a typical household in 2000 equaled \$2,500 per month, while the cost of purchasing exactly the same items in 2005 was \$3,000. If 2000 is the base year, the CPI for the year 2005 equals:

- A. 1.30
- B. 0.83
- C. 1.00
- D. 1.20
- E. 1.25

40. If the total expenditures of a typical family equaled \$40,000 per year in 2000 and the exact same basket of goods and services cost \$45,000 in the year 2005, the family's cost of living:

- A. decreased by 12.5 percent.
- B. was unchanged.
- C. decreased by 11.1 percent.
- D. increased by 12.5 percent.
- E. increased by 11.1 percent.

41. The consumer price index for Planet Econ consists of only two items: books and hamburgers. In 2000, the base year, the typical consumer purchased 10 books for \$20 each and 200 hamburgers for \$1 each. In 2005, the typical consumer purchased 12 books for \$23 each and 300 hamburgers for \$1.15 each. The consumer price index for 2005 on Planet Econ equals:

- A. 1.15
- B. 1.55
- C. 1.35
- D. 1.25
- E. 1.00

42. A CPI that equals 1.34 in 2005 (when 2000 is the base year) means that:

- A. the inflation rate in 2005 is 134 percent.
- B. the inflation rate in 2005 is 1.34 percent.
- C. prices in 2005 are 34 percent higher than in 2004.
- D. the CPI equals \$1.34 in 2005.
- E. the average level of prices is 34 percent higher in 2005 than in the base year.

43. A price index measures:

- A. the average price of a given class of goods or services relative to the price of the same goods and services in a base year.
- B. the change in the price of a specific good or service.
- C. the price of specific good or service.
- D. only the prices that change.
- E. the average price of a class of goods or services that change in any period relative to the prices of the goods or services that have not changed since the base year.

44. The CPI in 1975 equaled 0.54. The CPI in 1976 equaled 0.57. The rate of inflation between 1975 and 1976 was \_\_\_\_ percent.

- A. 5.40
- B. 3.00
- C. 5.26
- D. 5.55
- E. 5.70

45. The CPI measures the \_\_\_\_\_; a measure of the rate of inflation is the \_\_\_\_\_.

- A. base year price level; current year price level
- B. level of prices; change in the level of prices
- C. nominal price level; real price level
- D. current year price level; base year price level
- E. change in the level of prices; level of prices

# ECO202-EXAM1

Student: \_

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1. Macroeconomic policies are government policies designed to affect:

- A. the performance of the economy as a whole.
- B. particular sectors of the economy.
- C. the legal system of the whole country.
- D. the economic activity of the government.
- E. the environmental impact of all industries.

2. People who enjoy high standards of living usually have all of the following EXCEPT:

- A. longer life expectancies.
- B. more and better consumer goods.
- C. better general health.
- D. higher literacy rates.
- E. freedom from scarcity.

3. The standard of living in an economy is best measured by:

- A. average labor productivity.
- B. total output.
- C. the inflation rate.
- D. output per person.
- E. output per employed worker.

4. If Country A and Country B have the same total output, then the standard of living in Country A will be \_\_\_\_\_ the standard of living in country B.

- A. higher than
- B. the same as
- C. lower than
- D. (depending on their relative geographic size ) either higher, lower, or the same as
- E. (depending on the relative population sizes) either higher, lower, or the same as

5. If living standards in a country, as measured by output per person, increase, then total output must have:

- A. increased at the same rate that population increased.
- B. decreased at the same rate that population decreased.
- C. increased more slowly than population increased.
- D. decreased more rapidly than population decreased.
- E. increased more rapidly than population increased.

6. The country of Northland produced \$1,000 billion of output in one year. The population of Northland was 50 million, 30 million of whom were employed. What was average labor productivity in Northland?

- A. \$20
- B. \$20,000
- C. \$33
- D. \$50,000
- E. \$33,333

7. The value of output was \$1,000 billion in Northland and \$2,000 billion in Southland. The population of Northland was 50 million and the population of Southland was 120 million. There were 30 million employed workers in Northland and 75 million employed workers in Southland. Average labor productivity was higher in \_\_\_\_\_ and the standard of living was \_\_\_\_\_.

- A. Southland; higher in Northland
- B. Northland; higher in Northland
- C. Southland; higher in Southland
- D. Northland; the same in both countries
- E. Southland; the same in both countries

8. In Econland exports equal 15% of total output, while imports equal 20% of total output. Econland has:

- A. a trade deficit.
- B. a budget deficit.
- C. balanced trade.
- D. a budget surplus.
- E. a trade surplus.

9. Major macroeconomic questions include all of the following EXCEPT:

- A. Can inflation be reduced without generating additional unemployment?
- B. What causes slowdowns in productivity growth?
- C. Are free trade agreements beneficial?
- D. Why do economic growth rates vary across countries?
- E. How do monopoly firms set prices and determine quantities to produce?

10. Suppose that the total production of an economy consists of 10 oranges and 5 candy bars, each orange sells for \$0.20, and each candy bar sells for \$1.00. What is the market value of production in this economy?

- A. \$1.20
- B. \$5.00
- C. \$7.00
- D. \$11.00
- E. \$2.00

11. A drawback of using market values to aggregate the quantities of goods and services produced in an economy is that:

- A. market prices generally reflect the economic benefit consumers expect to receive from an item.
- B. higher-priced items count more.
- C. lower-priced items count more.
- D. not all economically valuable goods and services are bought and sold in markets.
- E. GDP increases when not all goods are produced in greater quantities.

12. The value of unpaid work by a homemaker \_\_\_ included in GDP and value of housekeeping services sold in the market \_\_\_ included in GDP.

- A. is not; is not
- B. is; is
- C. is sometimes; is
- D. is not; is
- E. is; is not

13. Which of the following is NOT a capital good?

- A. Batteries purchased by a car manufacturer to install in new cars
- B. A new house purchased by a family
- C. Machines purchased by a car manufacturer to measure metal thicknesses
- D. A new store built by a retail company
- E. A new apartment building purchased by a corporation

14. The value of intermediate goods are excluded from the measurement of GDP in order to:

- A. measure GDP in constant prices.
- B. index economic activity.
- C. correct for the stage of the business cycle.
- D. avoid double counting.
- E. adjust for inflation.

15. If an automobile manufacturer pays \$200 for a car windshield, \$400 for four car tires, \$100 for a car CD player, and sells cars made with these parts for \$20,000, then each car the automobile manufacturer sells contributes how much to GDP?

- A. \$20,400
- B. \$19,300
- C. \$20,000
- D. \$20,700
- E. \$20,200

16. The value added by any firm equals the firm's \_\_\_\_\_ from selling the product minus \_\_\_\_\_.

- A. revenue; expenses
- B. profits; expenses
- C. revenue; the cost of inputs purchased from other firms
- D. revenue; taxes
- E. profits; the cost of inputs purchased from other firms

17. The sum of the value added by all firms equals total:

- A. spending on capital goods.
- B. investment spending.
- C. value of final goods and services.
- D. profits.
- E. after-tax revenue.



18. Suppose a jar of orange marmalade that is ultimately sold to a customer at The Corner Store is produced by the following production process:

Name of Company	Revenues	Cost of Purchased Inputs
Citrus Growers Inc.	\$0.75	0
Florida Jam Company	\$2.00	\$ .75
The Corner Store	\$2.50	\$2.00

What is the value added of Citrus Growers Inc.?

- A. \$0.00
- B. \$1.25
- C. \$0.50
- D. \$0.75
- E. \$2.00

19. Suppose a jar of DeLux popcorn that is ultimately sold to a customer at Friendly Groceries is produced by the following production process:

Name of Company	Revenues	Cost of Purchased Inputs
Fulton Family Farm	\$0.50	0
DeLux Popcorn Co.	\$2.50	\$.50
Friendly Groceries	\$4.00	\$2.50

If the corn was grown and the jar of popcorn produced in the year 2005, but the jar was sold at Friendly Groceries in the year 2006, what is the contribution of these transactions to GDP in the year 2005?

- A. \$0.00
- B. \$1.50
- C. \$2.50
- D. \$0.50
- E. \$4.00

20. In the year 2005 Janice Quinn sells a five-year-old car to Used Car Inc. for \$3,000. In the same year Used Car Inc. resells the car to Ima Goner for \$3,500. What is the contribution of this transaction to GDP in the year 2005?

- A. \$3,000
- B. \$0
- C. \$6,500
- D. \$500
- E. \$3,500

21. In the year 2006, Pete Rich purchases a painting done by Rembrandt in 1642 for \$20 million. He also pays a one percent commission to the auction house that sold the painting. What is the contribution of this transaction to GDP in the year 2006?
- A. \$20.2 million
  - B. \$200,000
  - C. \$20 million
  - D. \$0
  - E. \$2 million
22. The market value of all domestically produced final goods and services is also equal to the total amount spent by \_\_\_\_\_ less spending on imported goods and services.
- A. households, firms, and the foreign sector
  - B. firms and governments
  - C. households and firms
  - D. households, firms, governments, and the foreign sector
  - E. households, firms, and governments
23. Consumption expenditures include spending by households on:
- A. taxes.
  - B. services.
  - C. inventories.
  - D. exports.
  - E. residential housing .
- ← 24. Which of the following would increase the consumption component of U.S. GDP?
- A. The U.S. government buys a bottle of California wine to serve at a state dinner in the White House.
  - B. A restaurant in Denver purchases a bottle of California wine to include on its wine list.
  - C. A restaurant in Denver purchases a bottle of French wine to include on its wine list. ✓
  - D. A person in Paris purchases a bottle of California wine. ✓
  - E. You purchase a bottle of California wine. ✓
25. The value of goods produced, but unsold, in the current period is:
- A. counted in GDP as inventory investment.
  - B. allocated to GDP in future periods.
  - C. excluded from GDP.
  - D. counted in GDP as consumption spending.
  - E. counted in GDP as services.

26. Government purchases include all of the following **EXCEPT**:

- A. social security benefits paid by the federal government.
- B. the salary paid to an elementary school teacher employed by a local public school district.
- C. the purchase of new military hardware by the U.S. Army.
- D. the construction of new highways by the state of Colorado.
- E. the construction of a new court house built by a county government.

27. Which of the expenditure components of GDP can be negative?

- A. consumption spending on durables
- B. business fixed investment
- C. government purchases of goods and services
- D. net exports
- E. consumption spending on services

28. Net export spending is expenditures on:

- A. goods and services by federal, state, and local governments. ✓
- B. capital goods, residential housing, and changes in inventories. ✓
- C. consumer durables, nondurables, and services. ✓
- D. stocks, bonds, and other financial instruments. ✓
- E. goods and services sold abroad minus goods and services produced abroad.

29. Given the following data for an economy, compute the investment component of GDP.

Consumption expenditures	1,000
Imports	600
Government purchases of goods and services	700
Construction of new homes and apartments	500
Sales of existing homes and apartments	600
Exports	500
Government payments to retirees	200
Household purchases of durable goods	300
Beginning-of-year inventory	500
End-of-year inventory	600
Business fixed investment	300

- A. 800
- B. 1,500
- C. 400
- D. 900
- E. 300

30. An economy produces only 1,000,000 computers valued at \$2,000 each. Of these 200,000 are sold to consumers, 300,000 are sold to businesses, 300,000 are sold to the government, and 100,000 are sold abroad. No computers are imported. The unsold computers at the end of the year are held in inventory by the computer manufacturers. What is value of GDP?

- A. \$0.9 billion
- B. \$1.0 billion
- C. \$3.8 billion
- D. \$2.0 billion
- E. \$1.8 billion

31. To compare the change in physical production (GDP) between 2000 and 2006, we should compare \_\_\_\_\_ GDP in 2000 with \_\_\_\_\_ GDP in 2006.

- A. real; nominal
- B. current dollar; current dollar
- C. current dollar; constant dollar
- D. real; real
- E. nominal; nominal

32. Real GDP measures the \_\_\_\_\_ of production and nominal GDP measures the \_\_\_\_\_ of production.

- A. current dollar value; current dollar value
- B. current dollar value; physical volume
- C. physical volume; physical volume
- D. physical volume; current dollar value
- E. current dollar value; market value

33. Assume an economy produces only hamburgers and hotdogs and the base year is 2005.

	Quantities Produced		Prices	
	2005	2006	2005	2006
Hamburgers	2,000	3,000	\$2	\$3
Hotdogs	3,000	4,000	\$1	\$1.50

What is the value of real GDP in 2006?

- A. \$15,000
- B. \$ 7,000
- C. \$10,500
- D. \$ 5,000
- E. \$10,000