

ECO 202  
MACROECONOMIC PRINCIPLES  
EXAM 1 Dr. Fadi Asrawi Dr. Usama Ramadan Mr. Ziad Ferzli

*Multiple-choice: Choose the one alternative that best completes the statement or answers the question.*

- Which choice below is NOT a component of National Income?
  - A) Net interest
  - B) Compensation of employees
  - C) Proprietors' income
  - D) Corporate profits
  - E) Depreciation

*Refer to Scenario 1 below to answer the questions that follow.*

SCENARIO 1: The components of GDP in 1999 in billions of dollars are:

Durable goods	\$758
Nondurable goods	1841
Services	3656
Nonresidential investment	1167
Residential investment	411
Change in business inventories	44
Federal government purchases	571
State and local government purchases	1058
Exports	996
Imports	1253

- Refer to Scenario 1. Gross private domestic investment in 1999 was
  - A) \$411.
  - B) \$1,622.
  - C) \$455.
  - D) \$1,167.
  - E) \$44.
- Personal consumption expenditure is computed as follows:
  - A) durable goods + nondurable goods and services
  - B) residential investment - exports
  - C) nonresidential sales + inventories
  - D) durable goods + exports
  - E) durable goods = nondurable goods - federal taxes
- An unanticipated increase in inflation will
  - A) hurt debtors.
  - B) hurt creditors.
  - C) benefit creditors.
  - D) benefit debtors.
  - E) benefit neither creditors or debtors.

- Suppose nominal GDP in 1990 was less than real GDP in 1990. Given this information, we know with certainty that
  - A) the price level in 1990 was less than the price level in the base year. ?
  - B) real GDP in 1990 was less than real GDP in the base year. ✗
  - C) the price level in 1990 was greater than the price level in the base year. ✗
  - D) real GDP in 1990 was greater than real GDP in the base year. ✗
  - E) 1990 was the base year. ✗

$$P_2 Q_2 < P_1 Q_2$$

1990      1990

Refer to Table 6.1 below to answer the following questions.

	Production		Price Per Unit	
	Year 1	Year 2	Year 1	Year 2
Good A	4	6	\$0.40	\$0.30
Good B	5	3	\$0.20	\$0.50
Good C	6	8	\$0.60	\$0.80

- Refer to Table 6.1. If we use a fixed-weight procedure and year 1 as the base year, then real GDP in year 1 is
  - A) \$7.80.
  - B) \$6.20.
  - C) \$9.70.
  - D) \$8.50.
  - E) None of the above

$$(4)(.4) + (5)(.2) + (6)(.6) = 6.20$$

- Refer to Table 6.1. If we use a fixed-weight procedure and year 2 as the base year, then real GDP in year 1 is
  - A) \$7.80.
  - B) \$6.20.
  - C) \$8.50.
  - D) \$9.70.
  - E) None of the above

$$(4)(.3) + (5)(.5) + (6)(.8)$$

- Refer to Table 6.1. Nominal GDP in year 2 is

- A) \$9.70.
- B) \$7.80.
- C) \$6.20.
- D) \$8.50.
- E) None of the above

$$(6)(.3) + (3)(.5) + (8)(.8)$$

$$1.8 + 1.5 + 6.4$$

- Which of the following is an example of an intermediate good?

- A) None of the below.
- B) The chocolate you buy to make yourself some cookies. ✗
- C) The dough you buy to fix yourself a pizza for dinner. ✗
- D) The pizza sauce you purchase to make a pizza at home to be donated to a charitable organization. ✗
- E) The pizza sauce you purchase to make pizzas to sell for a fund-raiser for an organization you belong to. ✗

- A company produced 10 dishwasher machines in 2003. The company sold 8 in 2003 and added 2 to its inventories. The market value of the dishwasher machines in 2003 was \$200 per unit. What is the value of this company's output that will be included in the 2003 GDP?

- A) \$400.
- B) \$1,600.
- C) \$2,000.
- D) \$1,800.
- E) none of the above, more information is needed.

- Deflation occurs when there is
  - A) a one-time increase in the overall price level.
  - B) an increase in the overall price level that continues over a significant period.
  - C) a decrease in the overall price level that continues over a significant period.
  - D) an increase in the overall price level.
  - E) None of the above
- Stagflation occurs when the overall price level \_\_\_\_\_ rapidly during periods of \_\_\_\_\_.
  - A) falls; recession
  - B) rises; recession
  - C) falls; strong economic growth
  - D) falls; no economic growth
  - E) rises; strong economic growth
- Dissaving occurs when
  - A) households receive more than they spend.
  - B) households receive exactly what they spend.
  - C) transfer payments are zero.
  - D) dividend income is zero.
  - E) households receive less than they spend.
- If depreciation is greater than gross investment, we know that
  - A) the capital stock has decreased.
  - B) GDP is greater than GNP.
  - C) the capital stock has increased.
  - D) GDP is less than GNP.
  - E) None of the above
- Which of the following is correct?
  - A) Final Sales = GDP - change in business inventories
  - B) Change in business inventories = Final sales + GDP
  - C) Change in business inventories = Final sales - GDP
  - D) GDP = Final sales - change in business inventories
  - E) Final Sales = GDP + change in business inventories
- Which of the following statements about discouraged worker effects is correct?
  - A) The unemployment rate rises when those no longer looking for work are no longer counted as unemployed.
  - B) Because of the existence of discouraged workers, the reported unemployment rate generally understates the true level of unemployment in an economy.
  - C) The number of discouraged workers seems to hover around 25% of the size of the labor force in normal times.
  - D) No Bureau of Labor Statistics survey provides any evidence on the size of the discouraged worker effect.
  - E) People who are still looking for work and have been unemployed for LONGER than four weeks are classified as having dropped out of the labor force rather than as being unemployed.
- Based on the terminology used by economists,
  - A) investment can refer to something other than the creation of capital stock.
  - B) investment represents the purchase of assets such as a mutual fund.
  - C) an investment is not something that is used to create value in the future.
  - D) firms invest when they sell off their inventories.
  - E) investment refers to the creation of capital stock.

- In a closed economy with no government, we know that
  - consumption equals income plus savings.
  - saving minus income equals consumption.
  - Income equals savings plus taxes.
  - $Y = C + S$ .
  - $S = Y + C$ .
- Based on the notation used in the text, suppose  $Y > C + I$ . Given this information, we know with certainty that
  - the economy is operating below the equilibrium level of output.
  - $S = I$ .
  - $C = I$ .
  - $S = Y$ .
  - firms' inventories are rising.
- Which choice below is FALSE?
  - National income is defined as the income of factors of production owned by the country.
  - GDP is output produced by factors of production located within the country.
  - Net factor payments to the rest of the world are payments of factor income to the rest of the world plus the receipt of factor income from the rest of the world.
  - National income does not include some income that is counted in GDP.
  - National income includes some income that should not be counted in GDP.
- Suppose nominal GDP in 1990 was less than real GDP in 1990. Given this information, we know with certainty that
  - the price level in 1990 was less than the price level in the base year.
  - real GDP in 1990 was less than real GDP in the base year.
  - the price level in 1990 was greater than the price level in the base year.
  - real GDP in 1990 was greater than real GDP in the base year.
  - 1990 was the base year.

Refer to Table 6.1 below to answer the following questions.

	Production		Price Per Unit	
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Good B	5	3	\$0.20	\$0.50
Good C	6	8	\$0.60	\$0.80

- Refer to Table 6.1. If we use a fixed-weight procedure and year 1 as the base year, then real GDP in year 2 is
  - \$7.80.
  - \$6.20.
  - \$9.70.
  - \$8.50.
  - None of the above
- Refer to Table 6.1. Nominal GDP in year 2 is
  - \$9.70.
  - \$7.80.
  - \$6.20.
  - \$8.50.
  - None of the above