Part I- Multiple choice. (15 questions; 45 points).

The PPF model is mainly used by economists to illustrate the problem of
 a. Increasing opportunity costs in consumption.
 b. Production tradeoffs under resource constraints.
 c. Income distribution among members of society
 d. How to choose the right inputs for the right products
 e. All of the above

Supply curves typically
 a. shift right with higher energy costs.
 b. show the prices that producers charge without competition.
 c. shift right when consumer incomes increase in order to respond to greater demand.
 d. shift right with better technologies of production.
 e. None of the above.

In the last decade of the twentieth century, the former Soviet Union and Eastern European countries transited from planned to market-based economies. Reasons why socialism proved unsustainable for these countries included:
 a. Managing the economic system became too complicated to be done by one central planner.
 b. The system did not provide sufficient incentives for production and exchange.
 c. The system did not allow consumers much sovereignty in consumption choices, which created social resentment.
 d. All of the above
 e. None of the above

Over the past few years, the average price of an apartment in Lebanon went up significantly. This might be explained by all of the following EXCEPT:
 a. The increase in population caused by the Syrian crisis.
 b. The increased preference of Lebanese families to own rather than rent housing.
 c. The increased supply of home loans that make it easier for families to borrow.
 d. The cheaper price of steel and other building materials.
 e. The increased desire on the part of expatriates to invest in the country.

Classical economists prior to Keynes believed that
a. unemployment can be a long-term problem. X
b. the government should lift the economy out of a recession. X
c. aggregate demand for goods and services must be increased through fiscal policy.
(d.) recessions would be reversed by the market's self-correcting mechanism.
e. all of the above.

A Keynesian economist's main proposal for how economies could reverse economic crisis or recessions was for
a. Firms to invest in a smaller volume of inventories
b. Consumers to buy more domestic goods and services
(c.) Governments to increase their expenditure on domestic goods and services.
d. Private individuals to invest wisely in the stock market in order to avoid recurrent stock market crashes
e. All of the above

The terms "expansion" and "contraction" are used by economists to refer to the
(a) fluctuations observed in the business cycle
b) fluctuations observed in the growth cycle
c) fluctuations observed in the money cycle
d) fluctuations observed in the inflation cycle
e) none of the above

Modern day economists agree that the economic functions of the government includes the following
a. Providing public goods such as defense ✓
b. Some degree of income redistribution in favor of less advantaged groups ✓
c. Making sure all markets are in equilibrium all the time. Price stability
d. Correcting for negative and positive externalities. ✓
(e.) All of the above

Money supply

Which of the following is considered a type of monetary policy?
a. The government decides to increase the tax rate on profits.
(b.) The government decides to reduce the money supply in order to maintain the value of the domestic currency.
c. The government decides to increase spending on infrastructure projects.
d. The government decides to promote education by building more public schools.
e. All of the above.

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$I + G + C + NX$

Which item below will NOT be used in the computation of Lebanese GDP via the expenditure approach? → Income
- a. The salaries and wages of workers at a Sanita factory
- b. Domestic goods purchased at a mall by foreign tourists
- c. Tuitions paid by households at private universities
- d. The re-construction by the government of a road damaged during a storm.
- e. None of the above; they would all be included in that approach.

The largest component of total expenditure in most countries is
- a. Expenditure on foreign goods.
- b. Expenditure by the government on goods and services
- c. Expenditures by private citizens on goods and services
- d. Expenditure by firms on capital goods and other investments
- e. Expenditure by the government on infrastructure projects.

HH

Per capita GDP is an important indicator because it gives an idea about the country's
- a. GDP relative to its GNP
- b. GDP per person.
- c. GDP in constant prices.
- d. GDP that also includes non-market and domestic production.
- e. GDP per one dollar of capital investment.

If the economy closes the year with more inventories than it had started with, the proper way to account for this in GDP computations is under
- a. depreciation. ✗
- b. net exports ✗
- c. consumer expenditures on durable goods. ✗
- d. government expenditures ✗
- e. none of the above

GDP > Sales
+ve
Inventory Investment

An economist applying the normative methodology will be
- a. using an objective type of analysis.
- b. using an approach to economics that seeks to understand rational behavior.
- c. proposing solutions to economic problems based on his/her convictions.
- d. more interested in academic than in private sector jobs.
- e. determining whether economic outcomes are normal or not.

Consider a nation facing choices of consumer or capital goods on its PPF. Producing more capital goods now means
a. more consumer goods can also be produced now.
b. producing a bundle that is inside (under) its PPF
c. producing a bundle that is outside (above) its PPF.
d. preferring future benefits over present ones.
e. there may be greater unemployment in the future.
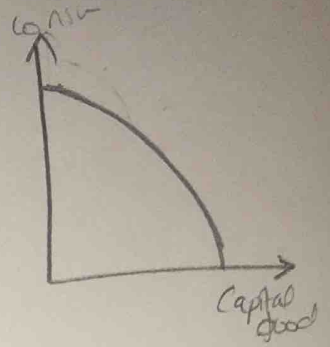
Part II—Essays/Problems. (2 questions; 40 points)

1. Define opportunity cost and explain the reason it arises. Using the production possibilities frontier model, discuss the significance of this concept for the national production choices of a small low-income country.

Opportunity cost is the value of the next best alternative You forego upon making a choice. Noting by that resources are scarce, In other words, resources are always demanded no matter how the resource is bur the quantity demanded of this resource exceeds the quanty supplied hence we have to make a choice upon another which results in opportunity Cost.

Taking an example a nation producing $G_1 + G_2$:
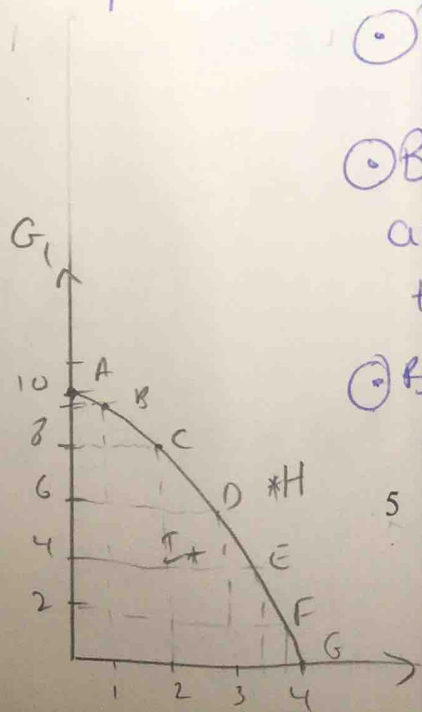
⊙ Bundle H is not feasible (unless Economic growth is done)

⊙ Bundle I: is not efficient since we aren't using the resources efficiently to produce

⊙ Bundles A, B, C, D, E, F, +G (and another set of infinite points) are feasible given the reasons observed and they are efficient since the resources are used correctly

⊙ However, slope = $\frac{\Delta Q G_2}{\Delta Q G_1}$ from A → B or any other two points. This slope represents the opportunity cost of producing one extra unit of G_2 in terms of the foregone (sacrificed) production of G_1

⊙ the slope is negative if $\Delta Q G_1 = -ve$ for vice versa $\Delta Q G_2 = +ve$

and ⟺ It reflects the opportunity cost

⊙ The graph is concave because the opportunity cost is increasing (in absolute value) as we more from the left to the right this concavity shows the increasing opportunity cost as we produce more of G_2

However, as we produce more products of G_2 the mix of resources becomes less suitable for the production of G_2 (since the good + skilled resources are used previously to produce G_1

2. Below is a table showing some national accounting figures for Lebanesia. Quantities are in millions of Lebanesian pounds. Use the data to calculate the terms required in a-c.

You must show your formula/method and all your work.

Net Private Domestic Investment	65
Exports of goods and services	55
Depreciation	15
Interest income	5
Consumption expenditure	150
Dividends	10
Government purchases of goods and services	100
Indirect taxes	20
Factor income payments to the rest of the world	18
Corporate profits	70
Changes in Inventories	20
Sole Proprietor's Income	40
Factor income receipts from the rest of the world	8
Imports of goods and services	60
Rental income	35

a) Gross domestic product
b) National income
c) Salaries and wages

I = Net Investment + Depreciation

$= 65 + 15$

a) GDP = $I + C + G + NX$ (Exports-Imports) $\boxed{I = 80}$

$= 80 + 150 + 100 + (55 - 60)$

$\boxed{GDP = 325}$

b) GDP = National Income + Indirect taxes + Statical Discrepancy + Depreciation

$325 = NI + 20 + 0 + 15$

$\boxed{NI = 290}$

c) National Income = Salaries & wages + Rent Income + Interest Income + Profit (Corporate + Sole proprietor's + Dividends

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$290 = X + 35 + 5 + 40 + 70 + 10$

$\boxed{X = 130}$