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Impressive!

LEBANESE AMERICAN UNIVERSITY- BYBLOS

Macroeconomics - ECO 202

Fall 2013

First Exam

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$$\begin{array}{r} \text{I}-57 \\ 35 \\ \hline 92 \\ + 6 \\ \hline 98 \end{array}$$

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Part I- Multiple choice. (20 questions; 60 points).

- ① Modern day economists agree that the economic functions of the government include all of the following EXCEPT
- a. The provision of public goods such as defense
 - b. Some degree of income redistribution in favor of less advantaged groups
 - ✓ c. The protection of investors against stock market losses
 - d. The promotion of competition to the extent possible
 - e. The maintenance of law and order through appropriate institutions.
- ② Which of the following is a specific example of opportunity cost?
- a. The interest you could earn by saving money at the bank instead of spending on current consumption
 - ✓ b. The tuition paid for a four-year college degree
 - c. Government expenditure on military goods
 - d. The improved performance of an athlete that results from each hour of additional practice
 - ~~e. All of the above~~
- ③ Normative economics
- a. examines the outcomes of economic systems without making judgments about whether they are good or bad.
 - b. is value-free economic analysis.
 - ✓ c. is the type of economics that might be most used in policy making.
 - d. considers questions like "What would happen if the government increases the corporate profit tax?"
 - e. is an approach to economics that seeks to understand behavior.
- ④ Production of more capital now means
- a. preferring future benefits over present ones.
 - b. producing something that will be used to produce other valuable goods and services over time.
 - ✓ c. less consumer goods must be produced now.
 - d. providing more resources for future generations.
 - e. all of the above
- ⑤ The slope of a production possibility frontier is negative because
- a. of economic growth.
 - ✓ b. society faces trade-offs.
 - c. of the law of increasing opportunity costs.
 - d. of technology.
 - e. of all of the above.
- ⑥ The concerns of macroeconomics include all of the following EXCEPT
- a. investment levels in the economy.

- b. gross domestic output.
- c. the number of jobs in the economy.
- d. the inflation rate.
- ☒ e. the structure of the computer industry

☒ 4 Which of the following is NOT a determinant of the demand for a particular smart phone model in a certain country?

- a. The purchasing power of the average user
- ☒ b. The price of the smart phone
- c. The usefulness of the applications installed in the smart phone
- d. The marketing influence of the competitors in that territory
- ☒ e. None of the above; they are all determinants of demand

☒ 7 The average price of residential units (apartments) has been increasing in Lebanon over the past few years. At the same time, the world prices of steel and other building material have declined. The best explanation for the Lebanese price trends would then be that:

- a. There was a rightward shift in the demand curve that exceeded the leftward shift in the supply curve.
- ☒ b. There was a rightward shift in the demand curve that exceeded the rightward shift in the supply curve.
- c. There was a rightward shift in the supply curve that exceeded the rightward shift in the demand curve.
- d. There was a rightward shift in the supply curve that exceeds the leftward shift in the demand curve.
- e. Prices of apartments in Lebanon are only determined by local incomes and will not respond to world prices.

☒ 9 Classical economists believed that

- ☒ a. unemployment could not persist for extended periods of time.
- b. the government could lift the economy out of recession.
- c. the aggregate demand for goods and services determined the level of employment.
- d. recessions were not self-correcting.
- ☒ e. government should intervene in the economy and affect the level of output and employment.

☒ 10 If net investment is negative, the capital stock has ____; if net investment is positive, the capital stock has ____.

- a. decreased; decreased
- b. increased; decreased
- ☒ c. decreased; increased
- d. increased; increased
- e. decreased; not changed

- b. show the prices that producers would charge in the absence of competition.
- ☒ c. shift right when consumer incomes increase in order to respond to greater demand.
- d. All of the above.
- ☒ e. None of the above.

☒ 7 Which of the following statements about the problem of inflation is correct?

- a. Anticipated inflation is worse for workers than unanticipated inflation.
- ☒ b. Unless an individual's income increases faster than the increase in the price level, that individual's welfare will be less with inflation.
- c. Everyone is hurt from inflation.
- d. Inflation should not hurt the economy as long as the government makes sure people's incomes increase in accordance with the inflation rate.
- e. All of the above

☒ 8 The natural rate of unemployment is defined as

- a. the unemployment that is a natural consequence of the business cycle.
- b. number of people unemployed to total labor force.
- ☒ c. the unemployment that normally exists in an economy even in good time.
- d. the unemployment rate in the sectors that have undergone most structural transformations.
- e. None of the above

☒ 9 An unanticipated increase in inflation tends to

- a. lead to higher economic growth.
- b. tip income distribution against those with variable incomes.
- c. decrease menu costs.
- ☒ d. make obsolete previously negotiated wage increases.
- e. all of the above

☒ 10 The portion of unemployment that is due to longer-run adjustment problems of the economy is called _____ unemployment.

- a. frictional
- b. the natural rate of
- ☒ c. structural
- d. discouraged-worker
- e. seasonal

11 Keynes' main proposal for how economies could reverse economic crisis or recessions was for

- a. Firms to invest in a larger volume of inventories
- b. Consumers to buy more domestic goods and services
- c. Governments to help exporters by providing information on international markets
- d. Private individuals to invest wisely in the stock market in order to avoid needless stock market crashes
- e. None of the above

12 Gross Domestic Product (GDP)

- a. includes all transactions in which money changes hands among a country's citizens.
- b. measures the total income earned by factors of production owned by a country's citizens regardless of where the output is produced.
- c. is the total market value of all final sales conducted within a country.
- d. is the market value of all final goods and services produced within a given period of time by factors of production located within a country.
- e. none of the above

13 Per capita GDP is a country's

- a. GNP divided by its GDP.
- b. GDP minus net factor payments.
- c. GDP divided by the total capital stock.
- d. population divided by its GDP.
- e. none of the above

14 If the economy closes the year with less inventories than it had started with, the proper way to account for this in GDP computations is that

- a. firms made positive planned inventory investments.
- b. firms made negative planned inventory investments.
- c. consumers spent less than they had planned.
- d. the government spent less than it had planned
- e. none of the above

15 Which item below will NOT be used in the computation of Lebanese GDP via the income approach?

- a. Incomes earned by Lebanese University professors
- b. VATs collected by the government for purchases made by tourists
- c. The interest earned by Lebanese depositors in banks
- d. The construction of a new factory for Sanita products
- e. None of the above; they will all enter into that approach

16 Supply curves typically

- a. shift to the left with advances in relevant technologies.

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.

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

a) Gross domestic product = $C + I + G + NX = 150 + 65 + 100 - 60 = 325$

b) National Income = $GDP - \text{indirect taxes} = GDP - IT = 325 - 20 = 305$

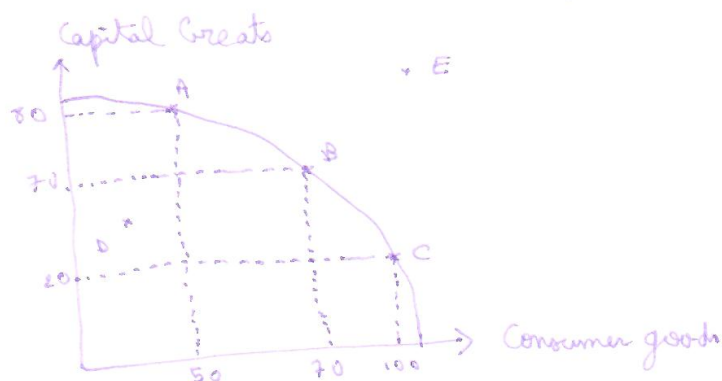
c) Salaries and wages

2. is solved on back of page 5.

1. Opportunity cost: Opportunity cost is the value of the best alternative you forego in making any particular choice. While there is always a set of choices available for individuals and society, picking any choice ~~now~~ necessarily means excluding all the other alternatives.

The reason of why it exists is that in order to increase the production of product A, we must utilize the resources that could ~~be~~ otherwise be used to produce B. In other words, to produce more A, we must give up the opportunity to produce certain amount of B. The opportunity cost of any decision consists of everything we must give up in order to carry out that decision. In this example, the quantities of B forgone is the opportunity cost of our decision.

PPF curve shows the maximum production of 2 goods with a limited amount of resources



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For a small low income country, producing on the curve means they are using their resources efficiently (A, B, C). At point D, resources are not used efficiently, and point E is unattainable. For them to produce more capital goods, they have to give up consumer goods.

A → 80 capital 50 consumer
B → 70 capital 70 consumer

→ To gain 20 consumer goods, they lost 10 capital
→ opportunity cost

→ More consumer goods means less capital goods
The law of increasing opportunity cost.

Not
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$$a) \text{ gross investment} = \text{net private domestic investment} + \text{depreciate} \\ = 65 + 15 = 80$$

$$a) \text{ gdp} = \text{consumer expenditure} + \text{gross private domestic investment} \\ + \text{government expenditure} + \text{net exports} \\ = 150 + 80 + 100 + \text{exports} - \text{imports} \\ = 330 + 55 - 60 = 325 \quad 17$$

$$b) \text{ National income} = \text{GDP} - \text{Depreciate} - \text{Indirect Taxes} \\ = 325 - 15 - 20 = 290 \quad \checkmark$$

$$c) \text{ Salaries and wages} = \text{national income} - \text{interest} - \text{profits} - \text{rent} \\ = 290 - 5 - (40 + 70) - 35 = 140 \quad 40$$

$$d) \text{ Gross National Product} = \text{GDP} + \text{Net Factor Payments from ROW} = 305 + 8 - 18 = 295 \quad \checkmark$$

(f)

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