**LEBANESE AMERICAN UNIVERSITY – BYBLOS**

**Macroeconomics 202**

 First Midterm -- Fall 2013

**SAMPLE**

**NOTE: The exam will cover chapters 1, 2, 3, 20, 21, and 22. Notes for all six chapters are on blackboard.**

**Part I - Multiple Choice (20 questions; 60 points)**

Note to Class: The following questions are illustrative only. The purpose is to show you the type of questions you might get on the exam.

The slope of a production possibility frontier is usually

 a. negative and increasingly negative.

 b. negative and decreasingly negative.

 c. positive and increasingly positive.

 d. positive and decreasingly positive.

 e. constant.

One of the characteristics of a command economy is

 a. the pursuits by individuals and firms of their own self-interest without any central direction or regulation.

 b. consumer sovereignty.

 c. free enterprise.

 d. competitive markets.

 e. none of the above.

Suppose there is an increase in government grants for college tuition. As a result, the equilibrium price of a college education would \_\_\_\_\_\_, and the equilibrium quantity of college students would \_\_\_\_\_\_.

 a. increase; increase

 b. increase; decrease

 c. decrease; increase

 d. decrease; decrease

 e. decrease; not change

A major European pharmaceutical company has developed and received approval for the marketing of a certain type of drug used in the treatment of diabetes. All of the following might impact the demand for this drug here in Lebanon EXCEPT for

 a. The price of the drug on the Lebanese market

 b. Whether or not Lebanese doctors prescribe it as an effective treatment for diabetes

 c. The salaries of the researchers employed by the European company that developed the new formula.

 d. The availability of substitute drugs of similar effectiveness on the local market.

 e. None of the above; they are all determinants of demand for this drug.

Suppose that the Lebanese government sells Electricite’ du Liban to the private sector, which results in much higher electricity prices. As a result, the equilibrium price of the typical product of the Lebanese snack industry would \_\_\_\_\_\_, and the equilibrium quantity of these snacks would \_\_\_\_\_\_.

 a. increase; increase

 b. increase; decrease

 c. decrease; increase

 d. decrease; decrease

 e. decrease; not change

According to Keynes,

 a. an excess supply of labor would drive down wages to a new equilibrium level.

 b. unemployment could not persist.

 c. recessions were self-correcting.

 d. there is no role for government in the economy.

 e. government could intervene in the economy and affect the level of output and employment.

If the price of raw cotton were to rise, we would expect

 a. the price of cotton clothes to rise.

 b. the price of polyester to fall.

 c. the price of cotton clothes to fall.

 d. people to purchase no cotton or cotton-made products.

 e. farmers to stop planting raw cotton.

If we wish to observe the effect that an increase in *X* has on *Y* as long as nothing else is changing, then we are making the assumption of

 a. composition.

 b. ceteris paribus.

 c. false cause.

 d. opportunity cost.

 e. none of the above.

Which of the following represents a type of fiscal policy?

 a. An increase in the money supply

 b. An increase in the interest rate

 c. An increase in government spending

 d. An increase in the minimum wage

 e. Adjusting labor laws.

Which of the following is a normative statement?

 a. Health care costs too much.

 b. Hospital bills are greater in Canada than in the United States.

 c. Pharmaceutical companies earn profits from the sale of prescription drugs.

 d. Hospitals are under increasing pressure to cut costs.

 e. All of the above

An increase in the equilibrium price could be caused by

 a. a decrease in supply or a decrease in demand.

 b. an increase in supply or an increase in demand.

 c. a decrease in supply or an increase in demand.

 d. an increase in supply or a decrease in demand.

 e. None of the above; once in equilibrium the price will not change.

Which of the following would not be included in GDP?

 a. The purchase of a used car

 b. The sale of stocks

 c. The sale of bonds

 d. The sale of Firestone tires to Ford Motor company

 e. All of the above

Which choice below is TRUE?

 a. A decrease in crime is an increase in output and is reflected in GDP.

 b. Most nonmarket and domestic activities are counted in GDP, as they amount to real production.

 c. GDP accounting rules do not take into consideration production that pollutes the environment.

 d. GDP figures can tell us much about the distribution of output among individuals in a society.

 e. All of the above.

One reason that economists might disagree when making normative statements is that there is no universal definition of

 a. efficiency.

 b. equity.

 c. stability.

 d. growth.

 e. All of the above

Gross Domestic Product measured in constant prices is called \_\_\_\_\_\_ GDP.

 a. base

 b. real

 c. weighted

 d. deflated

 e. None of the above

If GDP exceeds the sales of domestically produced final goods and services, we know that

 a. the change in business inventories is positive.

 b. the change in business inventories is negative.

 c. the change in business inventories is zero.

 d. Some domestic production must have been exported.

 e. None of the above.

Which of the following would NOT be a component of the Lebanese GDP as computed via the income approach

1. The salaries of the foreigners working in Lebanon
2. Government contracts for Lebanese firms providing automation support for ministry employees.
3. Salaries of airport staff.
4. The VATs collected by the government for purchases made at a mall.
5. None of the above.

Which of the following is NOT a determinant of the demand for automobiles?

 a. Household wealth

 b. Automobile prices

 c. Gasoline prices

 d. The average price of automobile engines

 e. The amount of money car makers spend to create television commercials for their products

The labor-force participation rate is the ratio of the

 a. number unemployed to labor force.

 b. number employed to labor force.

 c. labor force to total population over 16.

 d. number employed to total population over 16.

 e. none of the above.

Which of the following statements about discouraged worker effects is correct?

 a. 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.

 b. Because of the existence of discouraged workers, the reported unemployment rate generally understates the true level of unemployment in an economy.

 c. The unemployment rate rises when those no longer looking for work are no longer counted as unemployed.

 d. Ministries of labor in most countries provide plenty of evidence on the size of the discouraged worker effect.

 e. All of the above

If the population 16 years and older is 200 million, the number employed 130 million, and the number unemployed 15 million, then the unemployment rate would be \_\_\_\_\_\_%.

 a. 7.5

 b. 10.3

 c. 5

 d. 60

 e. 8.3

The \_\_\_\_\_\_ computes the CPI each month, using a bundle of goods meant to represent the "market basket" purchased monthly by a typical \_\_\_\_\_\_ consumer.

 a. government; rural

 b. government; urban

 c. firms; urban

 d. United Nations; urban

 e. United Nations; rural

**Part II- Short Answers (40 points)**

Note to Class: You will get two (2) questions from the following list of questions. The questions will be EXACTLY the same as the ones below. Careful (written) preparation is HIGHLY recommended. Answers must be well-organized, comprehensive, and precise.

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. Do you agree or disagree with the following statement. Explain your answer using a clear and properly labeled supply & demand diagram.

“Unless consumer incomes improve in the U.S. and other major economies, the average price of smartphone will most likely fall over the coming few years as their production technology continues to improve.”

3. Carefully explain how the approaches of Keynesian macroeconomists and classical economists differ with regard to the problem of unemployment. Make sure you mention how they differ in their views on what causes unemployment, the possible duration of unemployment, and what should be done about it. Use a simple illustration to explain your answer.

4. 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-f.

*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 private domestic investment

b) Gross domestic product

c) National income

d) Salaries and wages

e) Gross national product

f) Gross fixed capital formation

5. In each of the following cases, explain the potential problem that may arise and how modern methods of GDP computation resolve it.

a) Calculating GDP by adding up all final sales conducted within the borders of a nation.

b) Calculating GDP by adding up sales of all domestically produced goods and services.

c) Calculating GDP using current market prices.

6. The following questions pertain to unemployment: a) Briefly explain the four different types of unemployment. b) Why do economists think that some unemployment is inevitable? c) Give an example of a public policy that may be used to reduce the part of unemployment that is inevitable.