Econ 1A. Review Questions 2. Fall 2014. (Please study Chapter 5 – Chapter 8 carefully)

I. **Multiple Choice** [60]

Circle the letter of the one answer that you think is correct or closest to correct.

1. The standard of living is measured by the level of

a. Consumption of goods. b. production of goods.
c. income earned in producing the goods. d. production of goods per person..

2. Investment includes purchases of

a. all types of stocks. b. newly issued stocks.
c. new capital and all types of stocks. d. new capital.

3. GDP using the expenditure approach equals

a. C+S+G+NX. b. C+S+G-NX c. C+I+G+NX. d. C+I+G-NX.

4. To calculate GDP from the value of NDP at factor price, we have to add

a. the value of intermediate goods and subtract the value of import.
b. direct taxes, subtracts corporate profit, and add investment.
c. indirect taxes, subtract subsidies, and add capital consumption.
d. subsidies, subtract indirect taxes and capital depreciation..

5. When the economy is at full employment the

a. natural rate of unemployment = 0. b. natural rate of unemployment = unemployment rate.
c. natural rate of unemployment = 10%. d. unemployment rate = 0.

6. Assume that U.S. population is 300 million. If 240 million are of working age population with 150 million are employed and 6 million unemployed, what is the size of the labor force

a. 300 million. b. 240 million. c. 156 million. d. 150 million.

7. CPI is a measure of the

a. % change in the price level. b. average price of all goods.
c. average price paid by consumers for a fixed market of goods. d. average price of all goods produced.

8. If the CPI in 1990 was 100 and the CPI in 1991 was 115, the rate of inflation was

a. 1.5%. b. 15%. c. 100%. d. 115%.

9. The real interest rate is equal to the

a. nominal interest rate + the inflation rate. b. nominal interest rate – the inflation rate.
c. nominal interest rate x the inflation rate. d. nominal interest rate ÷ the inflation rate.

10. Potential GDP is

a. RGDP. b. GDP. c. another name for AE. d. RGDP at full employment.

11. At full employment there is no

a. unemployment. b. cyclical unemployment.
c. structural unemployment. d. frictional unemployment.

12. When LD intersects LS, so that quantity of labor supplied and demanded is equal

a. there is no unemployment. b. the economy is fully employed.
c. GDP = RGDP. d. there is no inflation.

13. The production function shows that as employment increases, RGDP

a. increases at an increasing rate. b. increases at a decreasing rate.
c. increases at a constant rate. d. decreases at a decreasing rate.

14. Suppose a major hurricane hits Florida. As a result, there is _______ in the U.S. production function, _____ in the U.S. demand for labor, and ______in the U.S. supply of labor.

a. no shift; an increase; a decrease. b. a downward shift; an increase; a decrease.
c. downward shift; a decrease; no change. d. an upward shift; no change; an increase.

15. The effect of the U.S. returning millions of workers to their home countries is _______ Mexico's production function and _______ in Mexico's Yp.

a. A movement up along; a decrease. b. a movement up along; an increase.
c. an upward shift of; an increase. d. a upward shift of; no change

II. Suppose Econland produces and consumes only juice and cloth. The base year is 2007, and the following table gives the typical family's basket, the prices and Econland's output of final goods

	basket	2007 price	2008 price	2007 output	2008 output
Juice	10	4	4	30	35
Cloth	5	5	6	20	30

a. Explain carefully what is CPI? Find CPI in 2007 and 2008. [8]
b. Explain carefully what is inflation rate? Find the inflation rate in 2008. [8]
c. Explain carefully what is GDP? Find GDP in 2007 and 2008. Also find RGDP in terms of CPI in 2007 and 2008. [14]

III. Potential GDP (Yp) model shows the relationship between employment (L) and Yp.

1. Explain carefully under what assumptions we can use Y = F(L;K,N,E) and LD and LS curves to describe the Yp model. [10]

2. Suppose the following events occur. Use Potential GDP (Yp) model to show the effects of each event on w (real wage), L_f (full employment quantity of labor) and Yp (potential RGDP) **graphically.** Please state the **cause** and the **effect** explicitly.

(a) In US, more teenagers go to college this year. [10]
(b) Dell introduces a new supercomputer that everyone can afford. [10]

xxxxx
1. d. 2. d. 3. c. 4. c. 5. b. 6. c. 7. c. 8. b. 9. b. 10. d. 11. b. 12. b. 13. b. 14. c. 15. b.
xxxxx