

Econ 303: Intermediate Macroeconomics I
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Sample Questions for Exam #1

1. Variables that a model tries to explain are called:
 - A) endogenous.
 - B) exogenous.
 - C) market clearing.
 - D) fixed.

2. A measure of how fast prices are rising is called the:
 - A) growth rate of real GDP.
 - B) inflation rate.
 - C) unemployment rate.
 - D) market-clearing rate.

3. Deflation occurs when:
 - A) real GDP decreases.
 - B) the unemployment rate decreases.
 - C) prices fall.
 - D) prices increase, but at a slower rate.

4. A severe recession is called a(n):
 - A) depression.
 - B) deflation.
 - C) exogenous event.
 - D) market-clearing assumption.

5. The assumption of flexible prices is a more plausible assumption when applied to price changes that occur:
 - A) from minute to minute.
 - B) from year to year.
 - C) in the long run.
 - D) in the short run.

6. During the period between 1900 and 2000, the unemployment rate in the United States was highest in the:
 - A) 1920s.
 - B) 1930s.
 - C) 1970s.
 - D) 1980s.

7. The assumption of continuous market clearing means that:
 - A) sellers can sell all that they want at the going price.
 - B) buyers can buy all that they want at the going price.
 - C) in any given month, buyers can buy all that they want and sellers can sell all that they want at the going price.
 - D) at any given instant, buyers can buy all that they want and sellers can sell all that they want at the going price.

8. The total income of everyone in the economy adjusted for the level of prices is called:
 - A) a recession.
 - B) an inflation.
 - C) real GDP.
 - D) a business fluctuation.

9. Macroeconomists are like scientists because they both:
- A) design data and conduct controlled experiments to test their theories.
 - B) rely on data analyzed from experiments they set up in a laboratory.
 - C) are unlimited in their use of controlled experiments.
 - D) collect data, develop hypotheses, and analyze the results.
10. Variables that a model takes as given are called:
- A) endogenous.
 - B) exogenous.
 - C) market clearing.
 - D) macroeconomic.
11. According to the usual seasonal pattern of the U.S. economy, GDP is highest in the quarter of the year that includes:
- A) January, February, and March.
 - B) April, May, and June.
 - C) July, August, and September.
 - D) October, November, and December.
12. Real GDP means the value of goods and services is measured in _____ prices.
- A) current
 - B) actual
 - C) constant
 - D) average
13. The value added on an item produced means:
- A) a firm's profits on the item sold.
 - B) the value of the labor inputs in the production of an item.
 - C) the value of a firm's output less the value of its costs.
 - D) the value of a firm's output less the value of the intermediate goods that the firm purchases.
14. A woman marries her butler. Before they were married, she paid him \$20,000 per year. He continues to wait on her as before (but as a husband rather than as a wage earner). She earns \$1,000,000 per year both before and after her marriage. The marriage:
- A) does not change GDP.
 - B) decreases GDP by \$20,000.
 - C) increases GDP by \$20,000.
 - D) increases GDP by more than \$20,000.
15. The panel of economists appointed by the Senate Finance Committee estimates that the CPI _____ inflation by approximately _____ percentage point(s) per year.
- A) overestimates; 1
 - B) overestimates; 10
 - C) underestimates; 1
 - D) underestimates; 10
16. Unlike the GDP deflator, the CPI includes the prices of:
- A) goods purchased by firms.
 - B) goods purchased by governments.
 - C) exported goods.
 - D) imported goods.

17. If total investment (measured in billions of current dollars) equals \$741, business fixed investment is \$524, and residential fixed investment is \$222, then inventory investment is:
- A) \$5.
 - B) -\$5.
 - C) \$15.
 - D) -\$15.
18. An economy's _____ equals its _____.
- A) consumption; income
 - B) consumption; expenditure on goods and services
 - C) expenditure on goods; expenditures on services
 - D) income; expenditure on goods and services
19. Assume that total output consists of 4 apples and 6 oranges and that apples cost \$1 each and oranges cost \$0.50 each. In this case, the value of GDP is:
- A) 10 pieces of fruit.
 - B) \$7.
 - C) \$8.
 - D) \$10.
20. If nominal GDP grew by 5 percent and real GDP grew by 3 percent, then the GDP deflator grew by approximately _____ percent.
- A) 2
 - B) 3
 - C) 5
 - D) 8
21. In the national income accounts, net exports equal:
- A) exported goods minus imported goods.
 - B) exported goods and services minus imported goods and services.
 - C) exported goods minus imported services.
 - D) exported goods and services plus imported goods and services.
22. To compute the value of GDP:
- A) goods and services are valued at market prices.
 - B) the sale of used goods is included.
 - C) production for inventory is not included.
 - D) goods and services are valued by weight.
23. In the national income accounts, consumption expenditures include *all* of the following *except* household purchases of:
- A) durable goods.
 - B) nondurable goods.
 - C) new residential housing.
 - D) services.
24. The total income of everyone in the economy is exactly equal to the total:
- A) expenditure on the economy's output of goods and services.
 - B) consumption expenditures of everyone in the economy.
 - C) expenditures of all businesses in the economy.
 - D) government expenditures.
25. In a closed economy, private saving equals:
- A) $Y - C - G$.
 - B) $Y - T - C$.
 - C) $Y - I - C$.
 - D) $Y - T$.

26. Assume that GDP (Y) is 5,000. Consumption (C) is given by the equation $C = 1,000 + 0.3(Y - T)$. Investment (I) is given by the equation $I = 1,500 - 50r$, where r is the real interest rate in percent. Taxes (T) are 1,000 and government spending (G) is 1,500.
- What are the equilibrium values of C , I , and r ?
 - What are the values of private saving, public saving, and national saving?
 - Now assume there is a technological innovation that makes business want to invest more. It raises the investment equation to $I = 2,000 - 50r$. What are the new equilibrium values of C , I , and r ?
 - What are the new values of private saving, public saving, and national saving?
27. A competitive, profit-maximizing firm hires labor until the:
- marginal product of labor equals the wage.
 - price of output multiplied by the marginal product of labor equals the wage.
 - real wage equals the real rental price of capital.
 - wage equals the rental price of capital.
28. According to the neoclassical theory of distribution, total output is divided between payments to capital and payments to labor depending on their:
- supply.
 - equilibrium growth rates.
 - relative political power.
 - marginal productivities.
29. The marginal product of capital is:
- output divided by capital input.
 - additional output produced when one additional unit of capital is added.
 - additional output produced when one additional unit of capital and one additional unit of labor are added.
 - value of additional output when one dollar's worth of additional capital is added.
30. An economy's factors of production and its production function determine the economy's:
- labor force participation rate.
 - budget surplus or deficit.
 - population growth rate.
 - output of goods and services.
31. If an earthquake destroys some of the capital stock, the neoclassical theory of distribution predicts:
- the real wage will rise and the real rental price of capital will fall.
 - both the real wage and the real rental price of capital will fall.
 - both the real wage and the real rental price of capital will rise.
 - the real wage will fall and the real rental price of capital will rise.
32. According to the model developed in Chapter 3, when government spending increases but taxes are not raised, interest rates:
- increase.
 - are unchanged.
 - decrease.
 - can vary.
33. With a Cobb-Douglas production function, the share of output going to labor:
- decreases as the amount of labor increases.
 - increases as the amount of labor increases.
 - increases as the amount of capital increases.
 - is independent of the amount of labor.

34. In the classical model with fixed income, if the demand for goods and services is greater than the supply, the interest rate will:
- increase.
 - decrease.
 - remain unchanged.
 - either increase or decrease, depending on whether consumption is greater or less than investment.
35. The government raises lump-sum taxes on income by \$100 billion, and the neoclassical economy adjusts so that output does not change. If the marginal propensity to consume is 0.6, private saving:
- rises by \$40 billion.
 - rises by \$60 billion.
 - falls by \$60 billion.
 - falls by \$40 billion.
36. When the demand for loanable funds exceeds the supply of loanable funds, households want to save _____ than firms want to invest and the interest rate _____.
- more; rises
 - more; falls
 - less; rises
 - less; falls
37. The production function feature called "constant returns to scale" means that if we:
- multiply capital by z_1 and labor by z_2 , we multiply output by z_3 .
 - increase capital and labor by 10 percent each, we increase output by 10 percent.
 - increase capital and labor by 5 percent each, we increase output by 10 percent.
 - increase capital by 10 percent and increase labor by 5 percent, we increase output by 7.5 percent.
38. Assume that equilibrium GDP (Y) is 5,000. Consumption (C) is given by the equation $C = 500 + 0.6Y$. No government exists. In this case, equilibrium investment is:
- 1,500.
 - 2,000.
 - 2,500.
 - 3,000.
39. The value of net exports is also the value of:
- net investment.
 - net saving.
 - national saving.
 - the excess of national saving over domestic investment.
40. In a small open economy, policies that increase:
- investment tend to cause a trade surplus.
 - investment tend to cause a trade deficit.
 - saving do not affect the trade balance.
 - saving tend to cause a trade deficit.
41. Assume that a small open economy gets involved in a global war, in which its government purchases increase and the rest of the world's government purchases also increase. Then, for the small country, net exports:
- will certainly decrease.
 - will certainly increase.
 - may increase or decrease.
 - will remain the same.

42. If the real exchange rate between the United States and Japan remains unchanged, and the inflation rate in the United States is 6 percent and the inflation rate in Japan is 3 percent, the:
- A) dollar will appreciate by 3 percent against the yen.
 - B) yen will appreciate by 3 percent against the dollar.
 - C) yen will appreciate by 6 percent against the dollar.
 - D) yen will appreciate by 9 percent against the dollar.
43. The doctrine of purchasing-power parity:
- A) is a completely accurate description of the real world.
 - B) would be entirely accurate if only goods were traded.
 - C) would be entirely accurate if all consumers had the same preferences.
 - D) provides a reason to expect that movements in the real exchange rate will typically be small or temporary.
44. A small open economy with perfect capital mobility is characterized by *all* of the following *except* that:
- A) its domestic interest rate always exceeds the world interest rate.
 - B) it engages in international trade.
 - C) its net capital outflows always equal the trade balance.
 - D) its government does not impede international borrowing or lending.
45. A depreciation of the real exchange rate in a small open economy could be the result of:
- A) a domestic tax cut.
 - B) an increase in government spending.
 - C) an increase in the world interest rate.
 - D) the expiration of an investment tax-credit provision.
46. Assume that some large foreign countries begin to subsidize investment by instituting an investment tax credit. Then, if world saving does not depend on the interest rate, world investment:
- A) will rise and home country investment will fall.
 - B) will rise and home country investment will remain unchanged.
 - C) will remain unchanged and home country investment will fall.
 - D) and home country investment will both remain unchanged.
47. A trade deficit can be financed in *all* of the following methods *except* by:
- A) borrowing from foreigners.
 - B) selling domestic assets to foreigners.
 - C) selling foreign assets owned by domestic residents to foreigners.
 - D) borrowing from domestic lenders.
48. In a small open economy, if exports equal \$15 billion and imports equal \$8 billion, then there is a trade _____ and _____ net capital outflow.
- A) deficit; negative
 - B) surplus; negative
 - C) deficit; positive
 - D) surplus; positive
49. For a closed economy, when a graph is made with net capital outflow along the horizontal axis and the real interest rate along the vertical axis, the result is a:
- A) vertical line.
 - B) horizontal line.
 - C) line that slopes up and to the right.
 - D) line that slopes down and to the right.

50. In a small open economy, when foreign governments reduce national saving in their countries, the equilibrium real exchange rate:
- A) rises and net exports fall.
 - B) rises and net exports rise.
 - C) falls and net exports fall.
 - D) falls and net exports rise.

Answer Key

1. A
2. B
3. C
4. A
5. C
6. B
7. D
8. C
9. D
10. B
11. D
12. C
13. D
14. B
15. A
16. D
17. B
18. D
19. B
20. A
21. B
22. A
23. C
24. A
25. B
26. a. 2,200; 1,300; 4 percent b. 1,800; -500; 1,300 c. 2,200; 1,300; 14 percent d. 1,800; -500; 1,300
27. B
28. D
29. B
30. D
31. D
32. A
33. D
34. A
35. D
36. C
37. B
38. A
39. D
40. B
41. C
42. B
43. D
44. A
45. D
46. C
47. D
48. D
49. A
50. D