

Name: _____ Date: _____

Use the following to answer question 1:

Table: GDP

Year 2011 (in billions of dollars)	
Consumption spending	865
Rental income	10
Interest	35
Profit	20
Investment spending	15
Wages	29
Government purchases	18
Imports	7
Exports	3

1. (Table: GDP) GDP in the table is:
A) \$94 billion.
B) \$188 billion.
C) \$168 billion.
D) \$139 billion.

Use the following to answer questions 2-4:

Table: The Consumer Price Index

Year	Consumer Price Index
1	80
2 (base year)	100
3	105
4	125
5	150

2. (Table: The Consumer Price Index) The approximate rate of inflation in year 2 is:
A) 10%.
B) 19%.
C) 20%.
D) 25%.

3. (Table: The Consumer Price Index) The approximate rate of inflation in year 5 is:
- A) 5%.
 - B) 10%.
 - C) 19%.
 - D) 20%.
4. (Table: The Consumer Price Index) The approximate rate of inflation in year 3 is:
- A) 5%.
 - B) 10%.
 - C) 19%.
 - D) 20%.

Use the following to answer question 5:

Table: CPI

Product	2008		2012	
	Quantity	Price	Quantity	Price
Bread	2,000	\$1.00	1,500	\$1.50
Laptops	100	2,000.00	150	1,500.00
Movies	50	5.00	40	7.00

5. (Table: CPI) Suppose only three goods are produced in this economy: bread, laptops, and movies. Calculate the CPI of 2012, using 2008 as the base year.
- A) 81.9
 - B) 100
 - C) 75.8
 - D) 95

Use the following to answer question 6:

Table: Calculating GDP

Rent	\$2,400
Consumption spending	7,900
Social Security benefit	6,100
Investment spending	2,100
Wages and salaries	6,500
Exports	800
Interest	1,900
Government purchases of goods and services	2,600
Profits	1,400
Imports	1,200
Purchase of stocks	6,300
Unemployment compensation	3,950
Payroll taxes	2,965
Sales taxes	1,300

6. (Table: Calculating GDP) Using the information in the table provided, which of the following is the correct calculation for GDP?
- A) \$47,475
 - B) \$12,200
 - C) \$21,485
 - D) \$34,085

- Households derive income from all of the following except:
 - wages or labor income.
 - interest from lending.
 - rent from allowing firms to use their land.
 - imports.

Use the following to answer questions 2-6:

Figure: Circular-Flow Model



- (Figure: Circular-Flow Model) What is GDP in this economy?
 - \$100
 - \$400
 - \$500
 - \$600

- (Figure: Circular-Flow Model) If the circular-flow model is in equilibrium (the sum of money flowing into each box is equal to the sum of the money flowing out of that box), which of the following is likely to happen if there is an increase in consumer spending?
 - an increase in the nominal GDP
 - a decrease in the nominal GDP
 - an increase in the unemployment rate
 - a decrease in the inflation rate

4. (Figure: Circular-Flow Model) If the circular-flow model is in equilibrium (the sum of money flowing into each box is equal to the sum of the money flowing out of that box), which of the following is likely to happen if there is an increase in government spending?
- A) an increase in the nominal GDP
 - B) a decrease in the real GDP
 - C) an increase in the unemployment rate
 - D) a decrease in the inflation rate
5. (Figure: Circular-Flow Model) How does the government finance its purchases of goods and services?
- A) by printing money
 - B) by taxes
 - C) by borrowing
 - D) by taxes and borrowing
6. (Figure: Circular-Flow Model) What are net exports in this economy?
- A) \$0
 - B) \$30
 - C) \$60
 - D) \$100
7. Goods that are produced domestically but sold abroad are:
- A) imports.
 - B) exports.
 - C) part of domestic consumption.
 - D) investment.
8. An example of a government transfer is a(n):
- A) expenditure on an interstate highway.
 - B) bequest from a deceased relative.
 - C) Social Security payment.
 - D) salary for a member of the armed forces.
9. Investment spending is:
- A) spending on productive physical capital.
 - B) spending on bonds.
 - C) spending on shares of stock.
 - D) spending on productive physical capital, on bonds, and on shares of stock.

10. Purchases of foreign-produced goods and services are:
- A) net exports.
 - B) exports.
 - C) imports.
 - D) transfer payments.
11. Inventory investment is counted as investment because:
- A) inventory is used for future production.
 - B) inventory is a source of future sales.
 - C) inventory has no opportunity cost.
 - D) inventory is tax deductible.
12. A laptop computer that is purchased by an accounting firm is considered to be:
- A) consumption spending.
 - B) investment spending.
 - C) private saving.
 - D) a pretax dividend.
13. Households receive income in the form of all of the following EXCEPT:
- A) wages.
 - B) dividends.
 - C) interest and rent.
 - D) investment spending.
14. The GDP deflator is:
- A) a price index.
 - B) equal to 100 in the base year.
 - C) the ratio of real GDP for year X divided by nominal GDP for year X \times 100.
 - D) a measure that tracks price changes for consumer goods.
15. Real per capita GDP is:
- A) real GDP divided by the population.
 - B) real GDP divided by the amount of capital available in the economy.
 - C) not a good useful measure of human welfare.
 - D) rarely used as a tool to compare countries' possible resources.

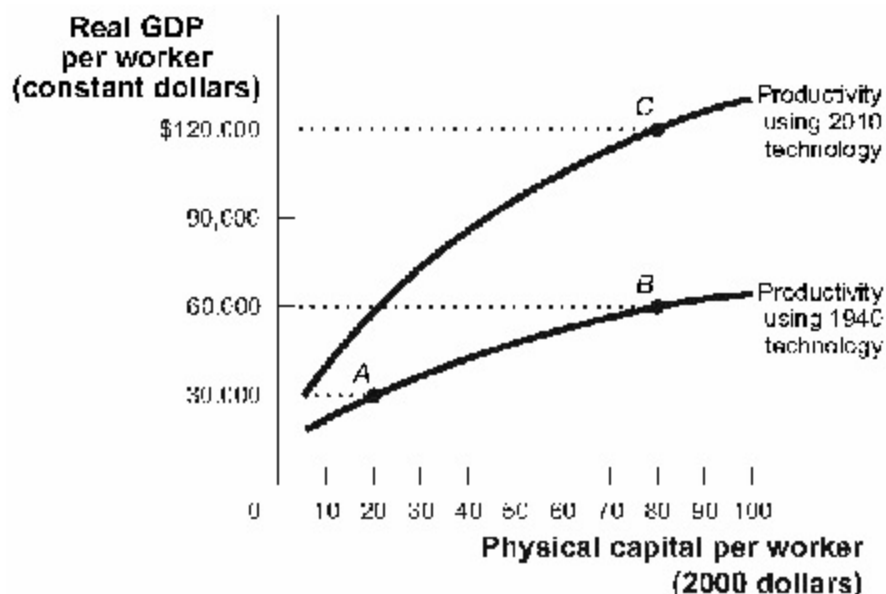
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1. An increase in the amount of physical capital per worker _____, while technological progress _____.
 - A) makes the aggregate production function steeper; changes the slope of the aggregate production function
 - B) makes the aggregate production function steeper; makes the aggregate production function flatter
 - C) moves the economy along the aggregate production function; shifts up the aggregate production function
 - D) shifts up the aggregate production function; moves the economy along the aggregate production function
2. Which of the following accurately describes what is happening along a typical aggregate production function?
 - A) At some point, increasing the amount of physical capital per worker will reduce productivity.
 - B) Increases in physical capital per worker will always bring about an increase in productivity that is worth the cost of the additional physical capital.
 - C) Due to diminishing returns, increasing the amount of physical capital per worker will eventually bring smaller and smaller increases in productivity.
 - D) Adding workers results in real GDP per worker rising at an increasing rate throughout the function.
3. The aggregate production function does NOT depend on which of the following?
 - A) the quantity of physical capital per worker
 - B) human capital per worker
 - C) the state of technology
 - D) the amount of natural resources
4. The sources of funds for investment spending are:
 - A) savings by households, government, and foreigners.
 - B) taxes and transfer payments.
 - C) always equal to U.S. spending on imports.
 - D) directed to their most productive uses by the U.S. government.
5. Technological progress is advanced through:
 - A) research and development.
 - B) government regulation.
 - C) consumption.
 - D) infrastructure.

6. Long-run economic growth is:
- A) higher in countries with a weak rule of law and excessive government intervention.
 - B) lower in countries with a strong government and independent judiciary.
 - C) lower in countries whose courts enforce property rights and whose government protects its citizens.
 - D) higher in countries with a strong rule of law and political stability.
7. A country's growth rate depends very highly on how it has invested in its physical capital. Generally, countries that have:
- A) used foreign direct investment as a source of their capital have exhibited the highest growth rate.
 - B) used domestic saving as a source of their investment on physical capital have exhibited the highest growth rate.
 - C) used foreign portfolio investment as a source of their capital have exhibited the highest growth rate.
 - D) used contracted globalization as a source of their capital have exhibited the highest growth rate.
8. When the government invests resources in a nation's educational system, the government is said to be investing in:
- A) private property.
 - B) human capital.
 - C) political stability.
 - D) infrastructure.
9. The East Asian countries have exhibited tremendous economic growth during the last 40 years because of all of the following EXCEPT:
- A) a significant increase in physical capital per worker made possible by very high rate of saving.
 - B) a significant increase in human capital made possible by very good basic education.
 - C) a substantial achievement in technological progress.
 - D) intervening governments with lots of regulations.
10. Economic growth will likely involve:
- A) a reduction in investment.
 - B) a decrease in the capital stock.
 - C) higher saving.
 - D) lower saving.

Use the following to answer questions 11-12:

Figure: Technological Progress and Productivity Growth



11. (Figure: Technological Progress and Productivity Growth) If there is a significant increase in human capital per worker (all other factors remaining unchanged), it would be best indicated by a move from:
- A) *A to B.*
 - B) *B to A.*
 - C) *C to B.*
 - D) *B to C.*
12. (Figure: Technological Progress and Productivity Growth) If there is an increase in physical capital per worker (all other factors remaining unchanged), it would be best indicated by a move from:
- A) *A to B.*
 - B) *B to A.*
 - C) *C to B.*
 - D) *B to C.*
13. Economies with higher growth rates tend to be those that increase their:
- A) government regulation.
 - B) human capital.
 - C) consumption.
 - D) resources.

14. Which of the following institutions is important in channeling savings into investment?
- A) schools
 - B) religious institutions
 - C) banks
 - D) the federal government
15. Among the factors that are important for economic growth are:
- A) property rights.
 - B) growth accounting.
 - C) natural resources.
 - D) convergence.
16. Ireland's recent economic growth and improving living standard are due primarily to:
- A) its refusal to join the European Union and abandon its own currency for the euro.
 - B) the capture and imprisonment of Sinn Fein leader Gerry Adams.
 - C) the large number of immigrants to the nation from Eastern Europe.
 - D) an excellent physical and human infrastructure, including a good education system, airports, telecommunications, and shipping facilities.
17. Which of the following is an important measure of economic growth over time?
- A) inflation
 - B) increases in real per capita GDP
 - C) decline in real interest rates
 - D) increases in the available labor supply
18. The standard of living in a country can be best measured by:
- A) nominal GDP per capita.
 - B) real GDP per capita.
 - C) the productivity growth rate.
 - D) the business cycles.
19. Suppose a panel of economists predicts that a nation's real GDP per capita will double in approximately 20 years. Based upon the rule of 70, what must be the predicted annual growth rate of real GDP per capita?
- A) 140%
 - B) 3.5%
 - C) 2.85%
 - D) 14%

20. Suppose a panel of economists predicts that a nation's real GDP per capita will have an average annual growth rate of 2%. Based upon the rule of 70, how many years will it take for this nation's real GDP per capita to double?
- A) 35
 - B) 70
 - C) 140
 - D) 20
21. The rule of 70 indicates that a 6% annual increase in the potential level of real GDP would lead to the potential output doubling in _____ years.
- A) 6
 - B) 12
 - C) 24
 - D) 30
22. Productivity declines when:
- A) the number of hours worked exceeds the number of workers.
 - B) population growth exceeds real GDP growth.
 - C) the ratio of adult civilians employed outside the home rises.
 - D) real GDP growth exceeds the population growth.
23. Over the course of the twentieth century, the real GDP per capita in the United States rose mostly as a result of:
- A) rising population.
 - B) rising employment.
 - C) rising productivity.
 - D) reduced vacation time.
24. The term *human capital* describes:
- A) improvement made possible by better machines and the equipment available.
 - B) improvement in the technology available to the work force.
 - C) improvement in a worker's skills made possible by education, training and knowledge.
 - D) improvement in the robotics technology that can substitute for a human worker.
25. Which of the following will NOT increase the productivity of labor?
- A) technological improvements
 - B) an increase in the capital stock
 - C) improvements in education
 - D) an increase in the size of the labor force

26. Rising high school graduation rates are an example of an increase in:
- A) technological progress.
 - B) human capital.
 - C) population stock.
 - D) fertility rates.
27. Physical capital includes:
- A) the education or knowledge a worker has in his or her physical being.
 - B) the tools a worker has to work with.
 - C) the money available for the worker to use.
 - D) shares of stock.
28. To acquire human capital a person would:
- A) save to buy a printing press.
 - B) purchase a printing press rather than use his or her money on consumption.
 - C) learn to use a printing press.
 - D) sell the books that the printing press produces.
29. Diminishing returns to physical capital means that as more and more physical capital is combined with a fixed amount of human capital and a fixed technology, eventually:
- A) aggregate output or real GDP declines.
 - B) aggregate output or real GDP grows.
 - C) additions to aggregate output or real GDP decline.
 - D) additions to aggregate output or real GDP increase.
30. Growth accounting estimates the:
- A) increase in the population rate over time.
 - B) increase in the inflation rate over time.
 - C) contribution of each major factor in the aggregate production function to economic growth.
 - D) contribution of the technology factor in the aggregate production function to economic growth.
31. Natural resources are:
- A) more important determinants of productivity today than ever before.
 - B) the reason behind the fast development of countries like Japan.
 - C) the reason behind the slow development of countries like Nigeria.
 - D) less reliable indicators of productivity today than they were a century ago.

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1. Employment is:
 - A) the total labor force.
 - B) the total population of working age.
 - C) the total number of people actively working.
 - D) the total number of people not unemployed.

2. The labor force is:
 - A) the total of people employed.
 - B) the total population.
 - C) the total of the population of working age.
 - D) the total of people employed and unemployed.

3. The unemployment rate is:
 - A) the percent of the labor force that is unemployed.
 - B) the number of people unemployed.
 - C) the ratio of the labor force to the number of people unemployed.
 - D) the average length of time someone is unemployed.

4. If a country has a working-age population of 200 million, 135 million people with jobs, and 15 million people unemployed and seeking employment, then its unemployment rate is:
 - A) 4%.
 - B) 7.5%.
 - C) 10%.
 - D) 67.5%.

5. If a country has a working-age population of 200 million, 135 million people with jobs, and 15 million people unemployed and seeking employment, then its labor force is:
 - A) 335 million.
 - B) 200 million.
 - C) 155 million.
 - D) 150 million.

6. The labor force is equal to the:
 - A) sum of employment and unemployment.
 - B) population minus the number of employed.
 - C) sum of the employed and the underemployed.
 - D) number of people working in the economy.

7. You are a college student and not working or looking for work. You are:
- A) unemployed.
 - B) in the labor force but not employed.
 - C) not part of the labor force.
 - D) not described by any of the above.
8. A person who has no job but is looking for one is:
- A) unemployed.
 - B) a discouraged worker.
 - C) part of the labor force.
 - D) unemployed and part of the labor force.
9. Suppose there are 70 million people in the labor force, of whom 60 million are employed. The unemployment rate is:
- A) 7%.
 - B) 10%.
 - C) 14.28%.
 - D) impossible to calculate.
10. Which one of the following calculations is correct?
- A) $\text{Unemployment rate} = \text{unemployed} / \text{employed} \times 100$.
 - B) $\text{Unemployment rate} = \text{unemployed} / \text{population} \times 100$.
 - C) $\text{Unemployment rate} = \text{employed} / \text{labor force} \times 100$.
 - D) $\text{Unemployment rate} = \text{unemployed} / \text{labor force} \times 100$.
11. In 2011, 10 million people did not have a job but were actively looking for employment and 85 million people had either a full-time or a part-time job. Based on this information, the unemployment rate in 2011 was:
- A) 10%.
 - B) 9.5%.
 - C) 10.5%.
 - D) 8.5%.
12. The country of Livonia has an adult population of 100 million; 60% of Livonia's population is employed, but 10% of the people are unemployed. The labor force participation rate in Livonia is:
- A) 70%.
 - B) 60%.
 - C) 7%.
 - D) 10%.

13. If the labor force totals 100 million workers and 90 million are actively working, then the unemployment rate is:
- A) 1%.
 - B) 5%.
 - C) 10%.
 - D) 90%.

Use the following to answer questions 14- 15:

Table: Labor Force Distribution

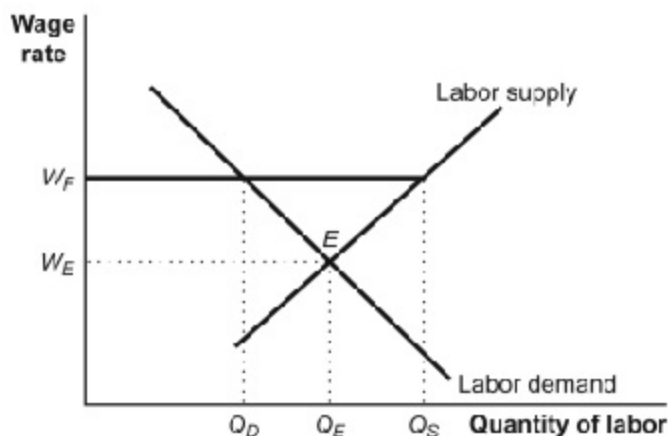
Employed adults	200 million
Labor force	208 million
Unemployed adults	8 million
Adults not in labor force	30 million
Non-adults (under 16) population	40 million

14. (Table: Labor Force Distribution) Based on the accompanying table, the unemployment rate is:
- A) 3.85%.
 - B) 10%.
 - C) 4.55%.
 - D) 6.75%.
15. (Table: Labor Force Distribution) Based on the accompanying table, the total population is:
- A) 486 million.
 - B) 253 million.
 - C) 278 million.
 - D) 283 million.

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Use the following to answer questions 1-3:

Figure: The Effect of a Minimum Wage

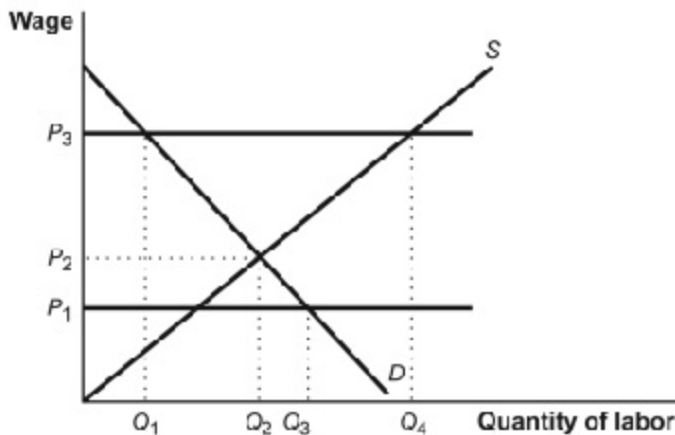


1. (Figure: The Effect of a Minimum Wage) Suppose the labor market is in equilibrium at E when the government imposes a minimum wage of W_F . One problem that may arise is that the quantity of labor supplied would _____, resulting in structural unemployment.
A) decrease to Q_D
B) stay at Q_E
C) increase to Q_S
D) stay at W_E
2. (Figure: The Effect of a Minimum Wage) Suppose the labor market is in equilibrium at E when the government imposes a minimum wage of W_F . Structural unemployment will equal:
A) $Q_S - Q_D$.
B) $Q_E - Q_D$.
C) $Q_S - Q_E$.
D) zero.
3. (Figure: The Effect of a Minimum Wage) Suppose that after some time with a minimum wage of W_F , the government abolishes the minimum wage. Employment would:
A) decrease to Q_E .
B) increase to Q_E .
C) stay at Q_E .
D) be impossible to determine.

4. A minimum wage of \$7.25 per hour might cause structural unemployment if the equilibrium wage in that labor market is:
- A) \$7.25.
 - B) \$8.00.
 - C) \$6.85.
 - D) \$7.30.
5. When the demand for labor is falling and employers have committed to high wages, _____ unemployment will result.
- A) frictional
 - B) cyclical
 - C) permanent
 - D) structural
6. Cyclical unemployment:
- A) rises during a recession.
 - B) falls during a recession.
 - C) rises during an expansion.
 - D) is a part of natural unemployment.
7. Structural unemployment can be caused by all of the following EXCEPT:
- A) minimum wages.
 - B) labor unions.
 - C) efficiency wages.
 - D) fluctuations in the business cycle.
8. Last month Brent lost his job at the auto parts factory because his factory, like many others, relocated to Asia. Brent has been looking for similar factory jobs in his town but has found no openings. Brent is best classified as:
- A) structurally unemployed.
 - B) frictionally unemployed.
 - C) a discouraged worker.
 - D) out of the labor force.
9. A binding minimum wage in a labor market is set _____ the equilibrium wage and creates a _____ of labor.
- A) below; surplus
 - B) below; shortage
 - C) above; surplus
 - D) above; shortage

Use the following to answer questions 10-14:

Figure: The Minimum Wage



10. (Figure: The Minimum Wage) Look at the accompanying figure on the labor market. By how much does the quantity of labor supplied rise when the government imposes a binding minimum wage of P_3 ?
- A) $Q_4 - Q_1$.
 - B) $Q_3 - Q_2$.
 - C) $Q_2 - Q_1$.
 - D) $Q_4 - Q_2$.
11. (Figure: The Minimum Wage) Look at the accompanying figure on the labor market. Which of the following is a binding minimum wage?
- A) P_1 .
 - B) P_2 .
 - C) P_3 .
 - D) zero.
12. (Figure: The Minimum Wage) Look at the accompanying figure on the labor market. What is the quantity of labor supplied at a binding minimum wage of P_3 ?
- A) Q_1 .
 - B) Q_2 .
 - C) Q_3 .
 - D) Q_4 .

13. (Figure: The Minimum Wage) Look at the accompanying figure on the labor market. What is the quantity of labor demanded at a binding minimum wage of P_5 ?
- A) Q_1 .
 - B) Q_2 .
 - C) Q_3 .
 - D) Q_4 .
14. (Figure: The Minimum Wage) Look at the accompanying figure on the labor market. The binding minimum wage of P_5 leads to unemployment of:
- A) $Q_5 - Q_1$.
 - B) $Q_5 - Q_2$.
 - C) $Q_4 - Q_1$.
 - D) $Q_4 - Q_2$.