Now let's begin the test.

Please choose the best answer to each of the following 15 questions. When you have completed the test, you must click the SUBMIT button to record your work. Click the SUBMIT button only once.

Please remember that you may take the test only ONCE. If you take it more than once, your first submission will be graded.

1. Refer to Figure 1 below. The equilibrium wage rate is $________ and the equilibrium number of people employed is ________ million people.
   - 8; 150
   - 12; 200
   - 8; 140
   - 7; 140

![Figure 1](image)

2. When Hurricane Andrew passed through Louisiana in the summer of 1992, approximately a quarter of the sugar cane crop was destroyed. As a result,
   - the supply of sugar decreased and the price of sugar increased.
   - the supply of sugar decreased and the price of sugar decreased.
   - the demand for sugar increased and the price of sugar increased.
   - the demand for sugar decreased and the price of sugar decreased.
3. Refer to Figure 2 below. Which of the following would be most likely to cause the demand for macaroni and cheese to decrease from D0 to D1?

- a decrease in the price of macaroni and cheese
- a decrease in the price of flour used to make macaroni and cheese
- a decrease in income, assuming macaroni and cheese is a normal good
- a decrease in the supply of macaroni and cheese

![Figure 2](image)

4. Consider two neighboring countries, Lapidaria and Barbaria. Lapidarians are generally well educated and their firms use the latest technology. Barbarians, on the other hand, seldom go to school past 5th grade and use crude tools and production methods. If the two countries engage in trade with each other,

- Both Lapidaria and Barbaria will gain from trade.
- Lapidaria will gain but Barbaria will lose.
- Lapidaria will lose but Barbaria will gain.
- Both Lapidaria and Barbaria will lose from trade.

5. The current Chairman of the Board of Governors of the Federal Reserve System (the “Fed”) is

- Alan Greenspan.
- Adam Smith.
- Ben Bernanke.
- Timothy Geithner.
6. The federal government currently subsidizes cotton farming by cash payments and other methods that amount to over $4 billion per year. Say that Congress votes to increase this subsidy by 10%. The likely effect of this on US cotton production would be that

- cotton production will increase.
- cotton production will remain unchanged.
- cotton production will decrease.
- the effect on cotton production cannot be determined.

7. Refer to the equation below which calculates the rate of inflation for a country for year \( t \), where \( t \) is the current year and \( t-1 \) refers to the previous year. Now, let the GDP deflator be the price index variable. If the GDP deflator was 114.3 last year and is 118.2 for this year, what is this year's inflation rate?

- 1.7%
- 3.4%
- 3.9%
- 4.7%

\[
\text{Inflation rate}_t = \left( \frac{\text{Price Index}_t - \text{Price Index}_{t-1}}{\text{Price Index}_{t-1}} \right) \times 100
\]

8. Refer to Figure 3 below. What is the slope of this production possibilities curve, measured from point A to point B?

- -1.33
- -0.75
- 0.75
- 1.33
- 3.0
9. Nominal GDP for year t is computed by summing the dollar value, measured in year t’s prices, of all goods and services produced within a nation during year t. If the table below represents all production within an economy, what was the value of nominal GDP in 2005?

- $1650.
- $1980.
- $2030.
- $2400.

<table>
<thead>
<tr>
<th></th>
<th>CDs</th>
<th>Hamburgers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price (2005)</td>
<td>$16</td>
<td>$5</td>
</tr>
<tr>
<td>Quantity (2005)</td>
<td>100</td>
<td>160</td>
</tr>
</tbody>
</table>

10. Two nations, Alpha and Bravo, are similar in many ways. Alpha, however, has a much more generous system of unemployment and welfare benefits. All else equal, what would you expect to be true of Alpha’s level of unemployment?

- Unemployment will be much higher in Alpha than in Bravo.
- Unemployment will be about the same in Alpha as in Bravo.
- Unemployment will be much lower in Alpha than in Bravo.
- No comparison of unemployment in Alpha and Bravo is possible.
11. In 2003, Denmark’s economy produced approximately $31,200 worth of goods and services per person. Hungary, meanwhile, produced only $13,900 worth of goods and services per person. Which of the following is most likely NOT an explanation for the differences in the economies of Denmark and Hungary?

- Denmark’s economy has more efficient machines and factories.
- Denmark’s workers are naturally more productive than Hungary’s.
- Denmark devotes more resources to education and training than does Hungary.
- Denmark’s legal system has a stronger system of support for property rights than does Hungary’s.

12. After graduation, you take a job in Detroit, very near the Canadian border. Apartments on the American side can be rented for 800 American dollars per month while apartments on the Canadian side of the border cost 1200 Canadian dollars per month. If your job is the same distance from either apartment, you should

- rent the American apartment because 800 dollars is cheaper than 1200 dollars per month.
- rent the Canadian apartment because a 1200 dollar apartment likely is much nicer than an 800 dollar apartment.
- rent the American apartment because it is illegal to live in one country and work in another.
- You cannot compare the apartments unless you know the exchange rate between Canadian and American dollars.

13. Suppose the Alabama state government implements a massive new public spending program throughout the state. Which of the following would be most consistent, in the short run, with the aggregate supply and aggregate demand model?

- An increase in Alabama’s unemployment rate and inflation rates.
- A decrease in Alabama’s unemployment and inflation rates.
- An increase in Alabama’s unemployment rate and a decrease in its inflation rate.
- A decrease in Alabama’s unemployment rate and an increase in its inflation rate.

14. Suppose that the Federal Reserve conducts an open market purchase of US Treasury bonds. Assuming no other changes, what effect should we expect to see on interest rates?

- Interest rates will increase.
- Interest rates will remain unchanged.
- Interest rates will decrease.
- The effect on interest rates cannot be determined.
15. Once a week you go to the local ice cream shop. Over the past 6 months you have noticed a decrease in the price of ice cream and a decrease in the amount of ice cream sold each day. Which of the following could explain the changes in the ice cream market?

- The supply of ice cream has increased.
- The supply of ice cream has decreased.
- The demand for ice cream has increased.
- The demand for ice cream has decreased.