BEFORE YOU DO ANYTHING ELSE: ON YOUR SCAN FORM, WRITE

1. YOUR NAME
2. TODAY’S DATE
3. EXAM 2
4. ECO231 and YOUR SECTION NUMBER

Part 1. Multiple Choice. 45 questions, @1.6 points, 72 points total. Print the letter corresponding to the best answer on your Accutron 100-AS answer form. USE PENCIL ONLY. Please do not mark on this form.

1. Persons who are retired or engaged in own-home housework are considered to be in which of the following categories?
   a. in the civilian labor force
   b. not in the labor force
   c. employed
   d. unemployed

2. In order to be classified as unemployed, a person must
   a. not have a job, have been actively looking for work within the past four weeks, and currently be available for work.
   b. not have a job, and currently be available for work.
   c. actively have looked for work within the past six weeks.
   d. not have a job.

3. Refer to Exhibit 6-2. The unemployment rate in year 1 is
   a. 12 1/2 percent.
   b. 80 percent.
   c. 87 1/2 percent.
   d. 70 percent.
   e. 10 percent.

4. Refer to Exhibit 6-2. The labor force participation rate in year 1 is
   a. 12 1/2 percent.
   b. 80 percent.
   c. 87 1/2 percent.
   d. 70 percent.
   e. 10 percent.

5. "Full employment" is said to exist when the unemployment rate equals
   a. zero.
   b. the cyclical unemployment rate.
   c. the structural unemployment rate.
   d. the natural unemployment rate.

6. Gross Domestic Product (GDP) is the total market value of all
   a. final goods and services produced annually within a country's borders.
   b. final and intermediate goods and services produced annually within a country's borders.
   c. intermediate goods and services produced annually within a country's borders.
   d. final goods and services produced every month within a country's borders.

7. Which of the following is counted in GDP?
   a. the trading of 100 shares of Microsoft stock
   b. the services of a real estate broker
   c. government transfer payments
   d. the sale of a used car
   e. none of the above

8. Net exports equals
   a. exports divided by imports.
   b. the sum of exports and imports.
   c. exports minus imports.
   d. exports during the year.
   e. none of the above

9. Investment is equal to all purchases of newly produced capital goods
   a. minus changes in business inventories.
   b. plus fixed investment minus inventory investment.
   c. plus changes in business inventories.
   d. plus changes in business inventories plus purchases of new residential housing.

10. Real GDP is the value of all _________ goods and services produced in a given year in _________ prices.
    a. intermediate; that year’s
    b. intermediate; base-year
    c. final; that year’s
    d. final; base-year

11. The standard definition of "recession" is
   a. a period of a positive frictional unemployment rate.
   b. two consecutive quarters of falling Real GDP.
   c. the lowest point in a business cycle.
   d. a period of negative inflation.

12. If Real GDP was $8,742 billion in year 2 and it had been $8,509 billion in year 1, what was the approximate economic growth rate during this time period?
   a. 9.73 percent
   b. 2.67 percent
   c. 3.58 percent
   d. 2.74 percent

13. The sum of spending for durable goods, nondurable goods, and services equals
   a. investment.
   b. fixed investment.
   c. government purchases.
   d. consumption.
   e. net exports.

14. Gross domestic product calculations count only final goods and services because:
   A. these are the only goods and services that are purchased in an economy.
   B. it is difficult to measure the prices of intermediate goods produced.
   C. counting all goods and services would lead to double-counting of many activities.
   D. one cannot calculate the quantities of intermediate goods produced.

15. As depicted in the circular flow diagram, firms:
   A. demand the goods and services that households supply in product markets.
   B. supply the resources that households demand in factor markets.
   C. demand the resources that households supply in product markets.
   D. supply the goods and services that households demand in product markets.

16. Real GDP is nominal GDP
   A. plus net exports.
   B. adjusted for inflation.
   C. minus depreciation.
   D. minus taxes.

17. Social security payments are examples of
   A. transfer payments.
   B. durable goods.
   C. services.
   D. non-durable goods.

18. The GDP expenditure equation is
   A. \( C + I = Y + G + NX \).
   B. \( Y = C - I - G - NX \).
   C. \( Y = C + I + G + NX \).
   D. \( C + I = G + NX \).

19. Inflation is caused by
   A. excessive wage demands by labor unions.
   B. greedy Wall Street traders.
   C. increases in the price of oil.
   D. the supply of money increasing faster than the supply of goods.

20. Which of the four spending components of GDP is most volatile over the course of the business cycle?
   A. Consumer expenditures (C)
   B. Gross Private Domestic Investment (I)
   C. Government purchases (G)
   D. Net Exports (\( NX = X - M \) )

21. Economists regard discouraged workers primarily as:
   A. lazy good-for-nothings.
   B. people who have made a rational choice not to seek work.
   C. part-time workers for calculating the unemployment rate.
   D. people who are involuntarily out of the labor force.

22. Unemployment that occurs during the normal workings of an economy as people change jobs and move across the country is called
   A. frictional unemployment.
   B. cyclical unemployment.
   C. natural unemployment.
   D. structural unemployment.

23. An economy’s long-run maximum sustainable real GDP is called:
   A. nominal GDP.
   B. target GDP.
   C. potential GDP.
   D. natural GDP.

24. At full employment, ______ unemployment equals zero.
   A. total
   B. frictional
   C. structural
   D. cyclical
25. Gross domestic product serves as a measure of two things:
A. total spending and total saving.
B. total income and total spending.
C. total saving and total production.
D. total consumption and total spending.

26. Say that Cathy says she would like to have a job, but isn’t willing to work for less than $15/hr. No employer is willing to pay her more than $12/hr. As long as this situation persists, Cathy will be
A. frictionally unemployed.
B. structurally unemployed.
C. cyclically unemployed.

27. The biggest problem caused by a deflation is that
A. wages fall.
B. prices fall.
C. people cannot repay their debts.
D. interest rates rise.

28. Refer to Table 1. The Consumer Price Index for 2011 is

29. Refer to Table 1. The Consumer Price Index for 2012 is

30. Refer to Table 1. Say the Consumer Price Index for 2013 is 116. The inflation rate from 2012 to 2013 is about _____ percent.
A. 2 B. 6 C. 7 D. 11

31. An economy’s full-employment unemployment rate is called the
A. equilibrium rate of unemployment.
B. break-even unemployment rate.
C. cyclical unemployment rate.
D. natural rate of unemployment.

32. In the complete circular flow diagram, money payments “leaking” out of the circular flow through import expenditures can be “injected” back into the flow by any of the following except:
A. lending through the US loanable funds market.
B. export expenditures.
C. national income.
D. investment expenditures in the US.

33. Say that mortgage loans in Barbaria currently are being made at a 10% nominal interest rate. If the expected inflation rate is 5%, then, using the Fisher equation, the real interest rate is
a. 1.5%.
b. 5%.
c. 15%.
d. not enough information is given to answer the question.

34. A serious problem with the official unemployment rate as an indicator of labor market conditions is that
a. persons under the age of 16 are not considered.
b. members of the armed forces are counted as unemployed.
c. retirees are counted as unemployed if they looked for work in the past year.
d. persons who drop out of the labor force are not counted as unemployed.

35. Which of the following is a necessary condition for an economy to be in equilibrium?
A. GDP = GNP
B. exports = imports
C. government purchases = tax revenues
d. saving = investment

36. Aggregate demand is total

37. The current negative output gap in the U.S. economy is considered to be mostly the result of
A) a negative shock to aggregate demand.
B) a slowdown in labor productivity.
C) a negative shock to aggregate supply.
D) a sharp increase in labor costs.

38. The short run in macroeconomics is the period in which
a. supply determines output.
b. prices adjust to some shock to the economy.
c. the demand curve is vertical.
d. no contracts or agreements exist to fix prices.
39. Which of the following does **not** shift the US aggregate demand curve?
   a. an increase in GDP in Japan
   b. an increase in the supply of money
   c. a decrease in the price level
   d. a decrease in taxes

40. Figure 9.1 shows three aggregate demand curves. An increase in the supply of money could result in a movement from
   a. AD1 to AD0.    c. b to a.
   b. AD1 to AD2.    d. b to c.

41. A fall in the real wage rate will cause the
   A. AD curve to shift right.
   B. AD curve to shift left.
   C. AS curve to shift right.
   D. AS curve to shift left.

42. Say that Japanese stock prices rise 40% over the next year. As a result, Japanese _____ will _____.
   a. AD; rise
   b. AD; fall
   c. SRAS; rise
   d. SRAS; fall

43. For an economy to be in short-run equilibrium, it is necessary for _____.
   a. LRAS = SRAS
   b. AD = SRAS
   c. SRAS = GDP
   d. AD = LRAS

44. Say that the economy of Galicia is in long-run equilibrium. Which of the following would **not** necessarily be true?
   a. U = NRU
   b. Y_A = Y_p
   c. r = R
   d. AD = SRAS

45. The interest rate effect transmits the effect of a change in ____ on total spending through a change in the real interest rate.
   a. government purchases
   b. real GDP
   c. the money supply
   d. the price level

END OF PART 1

Part 2. Essay. 10 points. Answer the following question fully in the space provided ON THE BACK OF YOUR 100-AS SCAN FORM. Use good grammar and punctuation, and write clearly. And USE PARAGRAPHS.

"Inflation is the cruelest tax." Explain. For full credit you must explain (A) how inflation is a tax, and (B) why it is the cruelest tax. Be sure to refer to Notes 14.

END OF PART 2

Part 3. Article Summaries. 11 articles, @3 points, 33 points total.

END OF EXAM 2