

Name:

ECO 201 – Eisenbarth – Final

DUE Friday, December 17<sup>th</sup>, 2021 11:59pm

Turn in to Blackboard (just as you did with Weekly Reviews)

All questions are one point each. This exam will be graded out of 30 points.

1. Indicate whether the following statements are positive or normative ?
  - a) I'm planning to go the movies Friday night. \_\_\_
  - b) Most economists believe the unemployment rate will increase next year. \_\_
  - c) Economic growth is more important than environmental protection. \_\_\_
  - d) The government should keep the inflation rate below 4%. \_\_\_
  - e) The capital of New York is Topeka. \_\_\_
  
2. According to our definitions used in class, Capitalism is:
  - a) An economic system
  - b) Where the means of production (capital goods) are privately owned
  - c) When wage laborers produce commodities
  - d) All of the above
  
3. Consider Country A, which had a real GDP of \$30 billion in 2013 and a real GDP of \$32 billion in 2014. What was its GDP growth rate between 2013 and 2014?:
  - a) 1.5%
  - b) 2%
  - c) 6.67%
  - d) 10%
  
4. Suppose real GDP decreased and prices went down. In that case, :
  - a) nominal GDP increased.
  - b) the increase in nominal GDP was less than the increase in inflation.
  - c) the decrease in real GDP was more than the decrease in nominal GDP.
  - d) the decrease in nominal GDP was more than the decrease in real GDP.
  
5. Econia had a nominal GDP of \$1000 in 2017. In 2018, Econia had a nominal GDP of \$2000. If the real GDP of Econia was constant (didn't change), then which of the following must be true?:
  - a) the price level doubled.
  - b) the interest rate doubled.
  - c) the exchange rate with Macroland doubled.
  - d) production doubled.

6. Econia had a nominal GDP of \$800 in 2017 and \$1200 in 2018. The growth rate of real GDP was 25% (or 0.25). What was inflation?

*Note: Inflation can be calculated as a rate of change between nominal and real GDP.*

- a)  $1/5$  or 20%
- b)  $1/4$  or 25%
- c)  $1/3$  or 33.3%
- d)  $1/2$  or 50%

7. Fiat money...

- a) has intrinsic value.
- b) is not vulnerable to hyperinflation.
- c) is accepted because a government says it has value.
- d) is the basis for barter.

8. The price of one Ghanaian Cedi in Gambian dalasi is approximately 9 dalasi. At that price, how many Cedi is 100 dalasi?

- a) 900 Cedi
- b) 11 Cedi
- c) 900 dalasi
- d) 11 dalasi

9. The price of one Japanese Yen in New Taiwan dollars is approximately 0.25 New Taiwan Dollars (TWD). At that price, how many New Taiwan dollars is 100 Yen?

- a) 25 Yen
- b) 400 Yen
- c) 25 TWD
- d) 400 TWD

10. A "fractional reserve system" means that ...

- a) banks must keep the total value of their deposits on reserve.
- b) the central bank buys bonds from private banks.
- c) banks can loan excess reserves to borrowers.
- d) commercial banking is kept separate from investment banking.

11. Which of the following statements is TRUE?

- a) As interest rates rise, people will choose to hold more money.
- b) As interest rates go down, people will choose to hold more bonds.
- c) Expectation of inflation can create inflation.
- d) In general, banks hold most of their money in their vaults.

12. A Production Possibilities Frontier is:

- a) A line depicting the alternative baskets of goods between which society is indifferent.
- b) A line drawn in the sand between firms on the battlefield.
- c) A line depicting the most that can be produced for a given amount of resources.
- d) A line depicting the growth path of a country specializing in their comparative advantage.

13. Suppose the US is less efficient than China at producing both cloth and microchips. However, the opportunity cost to produce cloth is less in the US than it is in China. Which of the following is true?:

- a) The US has an absolute advantage in cloth.
- b) The US has an absolute advantage in microchips.
- c) China has a comparative advantage in cloth.
- d) The US has a comparative advantage in cloth.

14. Which of the following IS an example of an opportunity cost?

- a) The interest rate on a loan to start a business
- b) Tuition
- c) How many to-go coffees you will have to skip to cover the cost of ordering delivery
- d) How much labor it takes Portugal to produce wine

15. An economic policy that prohibits the entry of foreign produced wool to help promote domestic wool production could be considered:

- a) progressive
- b) protectionism
- c) laissez-faire
- d) democratic

16. Which of the following IS a justification for a laissez-faire policy?:

- a) markets are better at allocating resources than governments
- b) when infant industries are protected, they can grow into strong economic forces
- c) the benefits of economic growth should be equally distributed
- d) markets generally lead to inefficient allocation of resources

17. "Crowding out" refers to the concern that government spending will:

- a) reduce inequality.
- b) increase hospital capacity.
- c) reward hardworking individuals at low-paying jobs.
- d) drive up interest rates and discourage business investment.

18. Which of the following is not an example of an automatic stabilizer:

- a) Emergency stimulus checks
- b) EBT
- c) Unemployment benefits
- d) Income tax

19. In the Keynesian model, spending by households that is decided before receiving income is called:

- a) intended consumption.
- b) household consumption.
- c) autonomous consumption.
- d) the marginal propensity to consume.

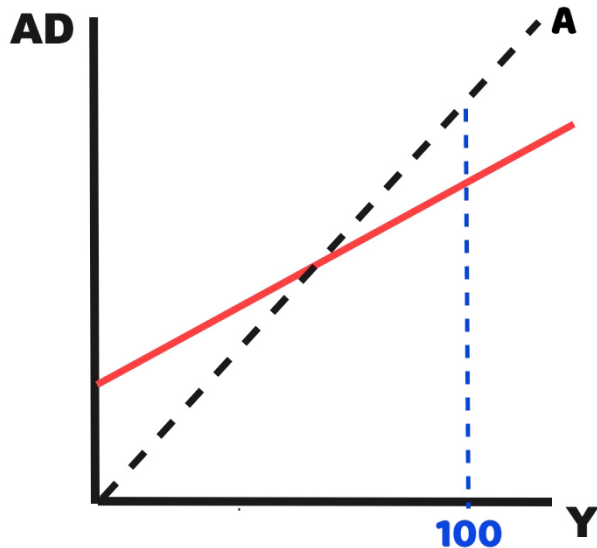
20. Suppose that Uni's disposable income increases from \$20,000 per year to \$25,000. At the same time, their consumption changes from \$18,000 per year to \$20,000 per year. What is Uni's marginal propensity to consume?:

- a) 0.2
- b) 0.4
- c) 0.6
- d) 0.8

21. Using the same numbers as the previous question, what is Uni's marginal propensity to save?

- a) 0.8
- b) 0.6
- c) 0.4
- d) 0.2

## Keynesian Cross



22. In the above Keynesian cross diagram, the black dotted line labeled “A” represents which curve?:
- Consumption
  - $Y=AD$
  - Inflation
  - Investment
23. In the above Keynesian cross diagram, which one of the following is TRUE at an income level of 100 (represented by the vertical, blue dotted line)?:
- Households will have saving equal to 100.
  - The economy is experiencing an inflationary spiral.
  - The economy is experiencing a recession, meaning businesses will experience excess inventory accumulation.
  - The economy is experiencing a recession, meaning businesses will experience excess inventory depletion.
24. In the situation described in questions 22 and 23, what type of fiscal policy could bring the economy back to equilibrium (where the red AD line crosses the black dotted line) according to the Keynesian Model?
- an increase of transfers to households
  - an increase of taxes on business
  - an increase of taxes on households
  - a decrease of government spending on infrastructure

25. Suppose the marginal propensity to consume in an economy is 0.7. In an economy with only consumption and investment, what would be the consumption/investment multiplier in this economy?
- a) 1.43
  - b) 2.5
  - c) 3.33
  - d) 5
26. Suppose investor confidence goes down and an economy experiences a massive reduction in autonomous investment. What would be the most likely immediate effect of this damage in the AD/AS model?
- a) The AD curve would shift up.
  - b) The AD curve would shift down.
  - c) The AS curve would shift to the right.
  - d) The AS curve would shift to the left.
27. Think about the AD-AS model presented in the last week of class. If an economy experiences a massive reduction in autonomous investment (like in question 26), what would happen to equilibrium (where the AD and AS lines cross)?
- a) The price level (P) would increase and output (Y) would not change.
  - b) P would decrease and Y would not change.
  - c) P and Y would both decrease.
  - d) P and Y would both increase.

Answer 3 of the following 5 questions.

(1 point each, you may receive extra credit if you correctly answer additional questions)

28. How does the government spending multiplier work through the economy?

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29. When dealing with government spending and budget, what should the government be most concerned about? Why?  
*(Be clear about your premise... do you have some assumptions or theory that you are following?)*

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30. What 3 things can the central bank do to combat rising inflation?  
(Be sure to include the direction e.g. increase/decrease, buy/sell, raise/lower)

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31. How does unemployment impact the government budget?  
(Government Budget = Taxes – (Government Spending + Transfers))

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32. True or False?: The central bank can change the reserve requirements, determining the amount of deposits a bank must hold. \_\_\_\_\_