

Name:

ECO 201.1404 – Eisenbarth – Final

DUE Tuesday 05/25

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

Unless otherwise noted, all questions are one point each.

This final will be graded out of 30 points but there are 32 possible points.

1. Indicate whether the following statements are positive or normative? (3 points)
 - a) Reducing unemployment should be the main goal of the government. ___
 - b) I'm planning to go the movies Friday night. ___
 - c) Most economists believe the unemployment rate will increase next year. ___
 - d) Economic growth is more important than environmental protection. ___
 - e) The government should keep the inflation rate below 4%. ___
 - f) 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 \$33 billion in 2014. What was its GDP growth rate between 2013 and 2014?:
 - a) 1%
 - b) 2%
 - c) 5%
 - d) 10%

4. Suppose real GDP decreased and prices went down. In that case,:
 - a) nominal GDP increased.
 - b) nominal GDP increased less than inflation increased.
 - c) nominal GDP decreased less than real GDP decreased.
 - d) nominal GDP decreased more than real GDP decreased.

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) $\frac{1}{5}$ or 20%
- b) $\frac{1}{4}$ or 25%
- c) $\frac{1}{3}$ or 33.3%
- d) $\frac{1}{2}$ 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. At that price, how many New Taiwan dollars is 100 Yen?

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

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 much labor it takes Portugal to produce wine
- d) The number of concerts you have to skip to budget for a trip to Paraguay

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

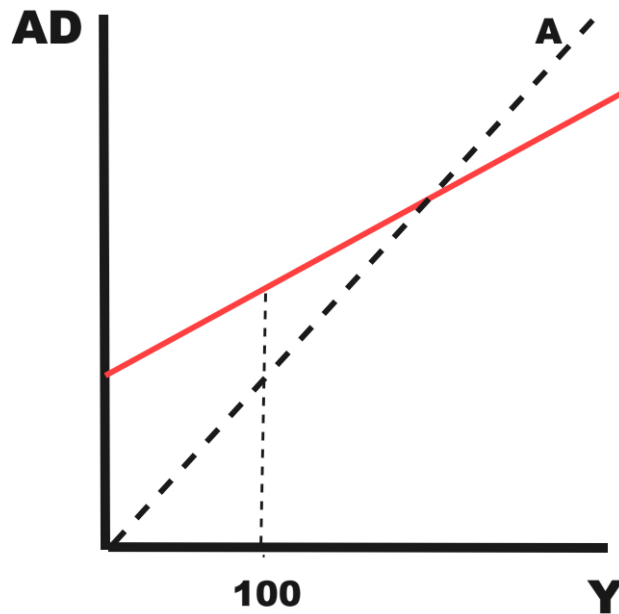
- a) progressive
- b) protectionism
- c) laissez-faire
- d) democratic

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 Union'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 \$22,000 per year. What is Union'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 Union'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 solid line labeled “A” represents what 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?:
- Households will have saving equal to 100.
 - The level of aggregate demand is lower than the level of output.
 - Businesses will experience excess inventory accumulation.
 - Businesses will experience excess inventory depletion.
24. According to the Keynesian model, income (Y) will be equal to aggregate demand (AD) only when ...
- households do not save.
 - actual household consumption is equal to intended consumption.
 - household saving is equal to imports.
 - actual business investment is equal to intended investment.

25. Suppose the marginal propensity to consume in an economy is 0.8. In an economy with only consumption and investment, what would be the consumption/investment multiplier in this economy?
- a) 1
 - b) $5/3$
 - c) 2.5
 - 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 to the right.
 - b) The AD curve would shift to the left.
 - 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 in the economy?
- 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 do not get extra credit for answering more than 3 questions)

28. Which of the following does not increase Aggregate Demand (AD) in our model?
- a) Consumption
 - b) Investments
 - c) Exports
 - d) Income
29. What are the three tools the Federal Reserve can use to manipulate interest rates?
- i. _____
 - ii. _____
 - iii. _____

30. What are the abbreviations (variable names) for the four components of GDP?

- i. _____
- ii. _____
- iii. _____
- iv. _____

31. Which of the following is NOT considered fiscal policy?

- a) Discretionary Policy
- b) Monetary Policy
- c) Contractionary Policy
- d) Expansionary Policy

32. What is an example of a policy that could increase the national debt?
