

Name:

ECO 201.1400 – Eisenbarth – Final

DUE: Tuesday, December 15th

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

Unless otherwise noted, all questions are one point each.

1. Indicate whether the following statements are positive or normative? (3 points)
  - a) The capital of Kansas is Topeka. \_\_\_\_\_
  - b) Reducing unemployment should be the main goal of the government. \_\_\_\_\_
  - c) I'm planning to go the movies Friday night. \_\_\_\_\_
  - d) The unemployment rate will go up in the next few years. \_\_\_\_\_
  - e) Most economists believe economic growth is more important than environmental protection. \_\_\_\_\_
  - f) The government should keep the inflation rate below 4%. \_\_\_\_\_
  
2. According to our definitions used in class, Capitalism is:
  - a) An economic system
  - b) Where the means of production are privately owned
  - c) When workers are hired for a wage to 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.
  - c) nominal GDP decreased less than real GDP.
  - d) nominal GDP decreased more than 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 grow), 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? \_\_\_\_\_

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? \_\_\_\_\_

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 on site.

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. What are the two main functions of the federal reserve? (choose two):

- a) keeping depreciation low
- b) keeping unemployment low
- c) keeping inflation low
- d) keeping interest low

16. 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

17. 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

18. "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.

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

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

20. 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.

21. 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

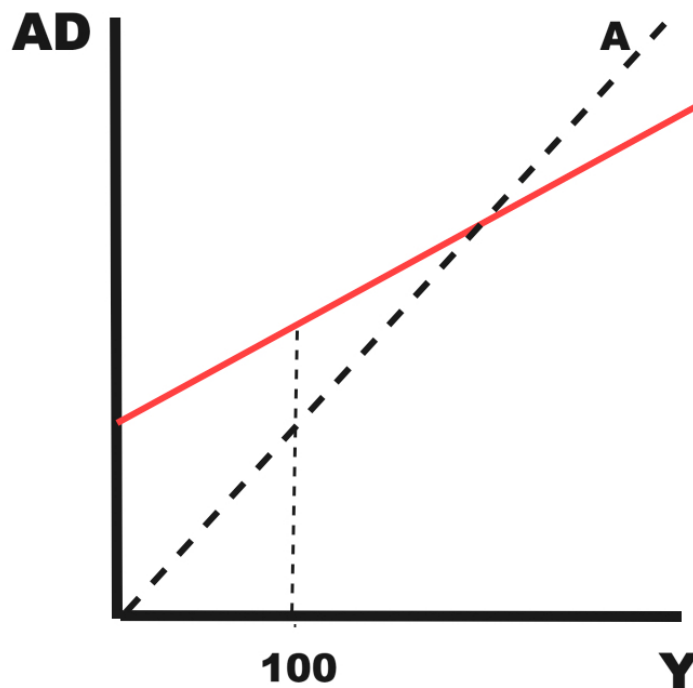
22. Using the same numbers as the previous question, what is Union's marginal propensity to save?

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

23. 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)  $\frac{5}{3}$
- c) 2.5
- d) 5

## Keynesian Cross



24. In the above Keynesian cross diagram the solid line labeled “A” represents what curve?:
- a) Consumption
  - b)  $Y=AD$
  - c) Inflation
  - d) Investment
25. In the above Keynesian cross diagram, which one of the following is TRUE at an income level of 100?:
- a) Households will have saving equal to 100.
  - b) The level of aggregate demand is higher than the level of output.
  - c) Businesses will experience excess inventory accumulation.
  - d) Businesses will experience excess inventory depletion.
26. According to the Keynesian model, income (Y) will be equal to aggregate demand (AD) only when ...
- a) households do not save.
  - b) actual household consumption is equal to intended consumption.
  - c) household saving is equal to imports.
  - d) actual business investment is equal to intended investment.

