Exam 1 Review

1. When a firm sells a product out of inventory, GDP:
   A) increases.
   B) decreases.
   C) is not changed.
   D) increases or decreases, depending on the year the product was produced.

2. An economy's ______ equals its ______.
   A) consumption; income
   B) consumption; expenditure on goods and services
   C) expenditure on goods; expenditures on services
   D) income; expenditure on goods and services

3. If output is described by the production function \( Y = AK^{0.2}L^{0.8} \), then the production function has:
   A) constant returns to scale.
   B) diminishing returns to scale.
   C) increasing returns to scale.
   D) a degree of returns to scale that cannot be determined from the information given.

4. Exogenous variables are:
   A) fixed at the moment they enter the model.
   B) determined within the model.
   C) the outputs of the model.
   D) explained by the model.

5. If the production function describing an economy is \( Y = 100 K^{25}L^{75} \), then the share of output going to labor:
   A) is 25 percent.
   B) is 75 percent.
   C) depends on the quantities of labor and capital.
   D) depends on the state of technology.

6. In the circular flow diagram, firms receive revenue from the ______ market, which is used to purchase inputs in the ______ market.
   A) goods; financial
   B) factor; financial
   C) goods; factor
   D) factor; goods
7. A competitive firm:
   A) is small relative to the market in which it trades.
   B) has to charge a lower price when it wants to sell more goods.
   C) has several large competitors with whom it engages in fierce competition.
   D) can set the wage at which it hires workers.

8. In a simple model of the supply and demand for pizza, when aggregate income increases, the price of pizza ______ and the quantity purchased ______.
   A) increases; decreases
   B) increases; increases
   C) decreases; increases
   D) decreases; decreases

9. In the long run, the level of national income in an economy is determined by its:
   A) factors of production and production function.
   B) real and nominal interest rate.
   C) government budget surplus or deficit.
   D) rate of economic and accounting profit.

10. Deflation occurs when:
    A) real GDP decreases.
    B) the unemployment rate decreases.
    C) prices fall.
    D) prices increase, but at a slower rate.

11. If bread is produced by using a constant returns to scale production function, then if the:
    A) number of workers is doubled, twice as much bread will be produced.
    B) amount of equipment is doubled, twice as much bread will be produced.
    C) amounts of equipment and workers are both doubled, twice as much bread will be produced.
    D) amounts of equipment and workers are both doubled, four times as much bread will be produced.

12. A production function is a technological relationship between:
    A) factor prices and the marginal product of factors.
    B) factors of production and factor prices.
    C) factors of production and the quantity of output produced.
    D) factor prices and the quantity of output produced.
13. Assume that apples cost $0.50 in 2002 and $1 in 2009, whereas oranges cost $1 in 2002 and $0.50 in 2009. If 10 apples and 5 oranges were purchased in 2002, and 5 apples and 10 oranges were purchased in 2009, the CPI for 2009, using 2002 as the base year, is:
   A) 0.75.
   B) 0.80.
   C) 1.
   D) 1.25.

14. If an increase of an equal percentage in all factors of production results in an increase in output of the same percentage, then a production function has the property called:
   A) constant marginal product of labor.
   B) increasing marginal product of labor.
   C) constant returns to scale.
   D) increasing returns to scale.

15. The two most important factors of production are:
   A) goods and services.
   B) labor and energy.
   C) capital and labor.
   D) saving and investment.

16. Assume that a rancher sells McDonald's a quarter-pound of meat for $1 and that McDonald's sells you a hamburger made from that meat for $2. In this case, the value included in GDP should be:
   A) $0.50.
   B) $1.
   C) $2.
   D) $3.

17. In fourteenth-century Europe, the bubonic plague:
   A) reduced the population of Europe by about one-half.
   B) substantially increased economic output in Europe.
   C) substantially increased real rentals on land in Europe.
   D) substantially increased real wages in Europe.

18. Since 1960, the U.S. ratio of labor income to total income has:
   A) been about 2.5 to 1.
   B) been about 0.7.
   C) increased steadily.
   D) decreased steadily.
19. In the national income accounts, the purchase of durables, nondurables, and services by households are classified as:
   A) consumption.
   B) investment.
   C) government purchases.
   D) net exports.

20. Macroeconomists cannot conduct controlled experiments, such as testing various tax and expenditure policies, because:
   A) it is against the law.
   B) they tried it once and it did not work.
   C) they must make use of the data history gives them.
   D) economists already know the answers that would come out of the experiments.

21. The production function feature called “constant returns to scale” means that if we:
   A) multiply capital by $z_1$ and labor by $z_2$, we multiply output by $z_3$.
   B) increase capital and labor by 10 percent each, we increase output by 10 percent.
   C) increase capital and labor by 5 percent each, we increase output by 10 percent.
   D) increase capital by 10 percent and increase labor by 5 percent, we increase output by 7.5 percent.

22. All of the following are types of macroeconomics data except the:
   A) price of an IBM computer.
   B) growth rate of real GDP.
   C) inflation rate.
   D) unemployment rate.

23. A typical trend during a recession is that:
   A) the unemployment rate falls.
   B) the popularity of the incumbent president rises.
   C) incomes fall.
   D) the inflation rate rises.

24. Variables that a model takes as given are called:
   A) endogenous.
   B) exogenous.
   C) market clearing.
   D) macroeconomic.
25. When a firm sells a product out of inventory, investment expenditures ______ and consumption expenditures ______.
A) increase; decrease
B) decrease; increase
C) decrease; remain unchanged
D) remain unchanged; increase

26. An economy's factors of production and its production function determine the economy's:
A) labor force participation rate.
B) budget surplus or deficit.
C) population growth rate.
D) output of goods and services.

27. If GDP (measured in billions of current dollars) is $5,465, consumption is $3,657, investment is $741, and net exports are −$1,910, then government purchases are:
A) $2,977.
B) $1,910.
C) −$843.
D) $1,067.

28. GDP is the market value of all ______ goods and services produced within an economy in a given period of time.
A) used
B) intermediate
C) consumer
D) final

29. Assume that a tire company sells 4 tires to an automobile company for $400, another company sells a compact disc player for $500, and the automobile company puts all of these items in or on a car that it sells for $20,000. In this case, the amount from these transactions that should be counted in GDP is:
A) $20,000.
B) $20,000 less the automobile company's profit on the car.
C) $20,900.
D) $20,900 less the profits of all three companies on the items that they sold.
30. With a Cobb–Douglas production function, the share of output going to labor:
   A) decreases as the amount of labor increases.
   B) increases as the amount of labor increases.
   C) increases as the amount of capital increases.
   D) is independent of the amount of labor.

31. Unlike the real world, the classical model with fixed output assumes that:
   A) all factors of production are fully utilized.
   B) all capital is fully utilized but some labor is unemployed.
   C) all labor is fully employed but some capital lies idle.
   D) some capital lies idle and some labor is unemployed.

32. In the national income accounts, net exports equal:
   A) exported goods minus imported goods.
   B) exported goods and services minus imported goods and services.
   C) exported goods minus imported services.
   D) exported goods and services plus imported goods and services.

33. If the GDP deflator in 2009 equals 1.25 and nominal GDP in 2009 equals $15 trillion, what is the value of real GDP in 2009?
   A) $12 trillion
   B) $12.5 trillion
   C) $15 trillion
   D) $18.75 trillion

34. In computing GDP,
   A) expenditures on used goods are included.
   B) production added to inventories is excluded.
   C) the amount of production in the underground economy is imputed.
   D) the value of intermediate goods is included in the market price of the final goods.

35. Assume that total output consists of 4 apples and 6 oranges and that apples cost $1 each and oranges cost $0.50 each. In this case, the value of GDP is:
   A) 10 pieces of fruit.
   B) $7.
   C) $8.
   D) $10.
36. If \( Y = AK^{0.5}L^{0.5} \) and \( A, K, \) and \( L \) are all 100, the marginal product of capital is:
   A) 50.
   B) 100.
   C) 200.
   D) 1000.

37. In the circular flow model, households receive income from the _____ market and save through the _____ market.
   A) goods; financial
   B) factor; financial
   C) goods; factor
   D) factor; goods

38. The best measure of the economic satisfaction of the members of a society is:
   A) nominal GDP.
   B) real GDP.
   C) the rate of inflation.
   D) the value of corporate profits.

39. Assume that a firm buys all the parts that it puts into an automobile for $10,000, pays its workers $10,000 to fabricate the automobile, and sells the automobile for $22,000. In this case, the value added by the automobile company is:
   A) $10,000.
   B) $12,000.
   C) $20,000.
   D) $22,000.

40. Assume that a bakery hires more workers and pays them wages and that the workers produce more bread. GDP increases in all of the following cases except when the bread:
   A) is sold to households.
   B) is stored away for later sale.
   C) grows stale and is thrown away.
   D) is sold to other firms.

41. In an economic model:
   A) exogenous variables and endogenous variables are both fixed when they enter the model.
   B) endogenous variables and exogenous variables are both determined within the model.
   C) endogenous variables affect exogenous variables.
   D) exogenous variables affect endogenous variables.
42. When bread is baked but put away for later sale, this is called:
   A) waste.
   B) saving.
   C) fixed investment.
   D) investment in inventory.

43. To compute the value of GDP:
   A) goods and services are valued at market prices.
   B) the sale of used goods is included.
   C) production for inventory is not included.
   D) goods and services are valued by weight.

44. The value added of an item produced refers to:
   A) a firm's profits on the item sold.
   B) the value of the labor inputs in the production of an item.
   C) the value of a firm's output less the value of its costs.
   D) the value of a firm's output less the value of the intermediate goods that the firm purchases.

45. Since GDP includes only the additions to income, not transfers of assets, ______ are not included in the computation of GDP.
   A) final goods
   B) used goods
   C) consumption goods
   D) goods produced for inventory

46. All of the following transactions that took place in 2009 would be included in GDP for 2009 except the purchase of a:
   A) book printed in 2009, entitled The Year 3000.
   B) 2001 Jeep Cherokee.
   C) year 2010 calendar printed in 2009.
   D) ticket to see the movie 2001.

47. In the long run, what determines the level of total production of goods and services in an economy?
   A) the interest rate and the amount of national saving
   B) the quantity of capital, quantity of labor, and production technology
   C) consumption, investment, and government spending
   D) the marginal products of capital and labor, constant returns to scale, and competition
Answer Key

1. C
2. D
3. A
4. A
5. B
6. C
7. A
8. B
9. A
10. C
11. C
12. C
13. D
14. C
15. C
16. C
17. D
18. B
19. A
20. C
21. B
22. A
23. C
24. B
25. B
26. D
27. A
28. D
29. A
30. D
31. A
32. B
33. A
34. D
35. B
36. A
37. B
38. B
39. B
40. C
41. D
42. D
43. A
44. D
45. B
46. B
47. B