

Midterm Exam 3

Econ 2020-010
Spring 2010
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Version B

Instruction: On the scantron, fill out your name (both the bubbles and the write-in portion) and place your recitation section number in the boxes labeled '1234'

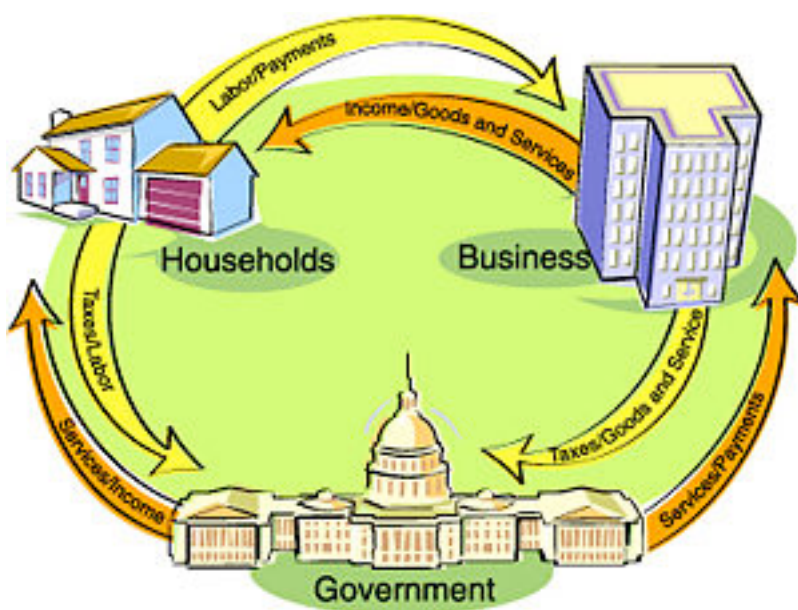
Recitation Number	Day of week	Time	TA	Location
0011	T	12:30	McMahan	CHEM 145
0012	T	5:00	McMahan	ECON 119
0013	R	12:30	McMahan	HLMS 259
0014	R	3:30	McMahan	EDUC 138

You have 50 minutes to complete the exam. There are total 30 questions.

Please read carefully and choose the choice that best completes the statement or answers the question.

Answer All.

Try your best! Good luck!



1. An increase in expected inflation will affect the short-run Phillips curve,
- A) by shifting the short-run Phillips curve downward, and the actual rate of inflation at any given unemployment rate will fall by the same amount.
 - B) by shifting the short-run Phillips curve upward, as a result the actual rate of inflation at any given unemployment rate will also be higher when the expected inflation rate is higher.
 - C) by moving along the same short-run Phillips curve, where it equals the actual rate of inflation.
 - D) only if the economy is at nonaccelerating inflation rate of unemployment.

2. Which of the following equations describes the calculation of the natural unemployment rate?
- A) Natural unemployment = Frictional unemployment + Structural unemployment
 - B) Natural unemployment = Cyclical unemployment + Structural unemployment
 - C) Natural unemployment = Frictional unemployment + Cyclical unemployment
 - D) Natural unemployment = Frictional unemployment + Structural unemployment + Cyclical unemployment

3. All of the following are potential reasons for the economic stagnation of Latin America during the last century EXCEPT:
- A) irresponsible government policies that fueled high levels of inflation.
 - B) low rates of savings.
 - C) lack of public support for education.
 - D) excessively large flows of foreign investment.

4. If a high inflation rate leads people to _____ their money holdings, this may lead to further increase in the money supply and _____ inflation.
- A) reduce; lower
 - B) increase; lower
 - C) reduce; higher
 - D) increase; higher

5. The convergence hypothesis helps explain why:
- A) highly educated people converge in high-income countries.
 - B) high-income individuals marry other high-income individuals.
 - C) high-income countries continue their high growth rates.
 - D) high-income countries tend to have slower growth rates compared to lower-income countries.

6. During an inflationary gap:
- A) the unemployment rate is less than the natural rate of unemployment.
 - B) actual output is less than potential output.
 - C) the unemployment rate is equal to the natural rate of unemployment.
 - D) wages and prices will need to fall in order to restore the economy to its potential output.
7. The formula for the rule of 70, where n is number of years and r is growth rate, is expressed as:
- A) $n \times 70 = r$.
 - B) $n \div r = 70$.
 - C) $r \div n = 70$.
 - D) $n \times r = 70$.
8. From 2007–2008 Nation A saw real GDP increase from \$100 billion to \$106 billion. The population of Nation A also grew from 50 million to 51 million from 2007–2008. The annual growth rate in real GDP per capita was approximately:
- A) 1%.
 - B) – 3%.
 - C) 4%.
 - D) 6%.
9. What distinction did Zimbabwe achieve in June 2008?
- A) It was the first African nation to become a democracy.
 - B) It ended apartheid.
 - C) It had the world's highest inflation rate.
 - D) It had the world's highest unemployment rate.
10. Last week Stephanie quit her job as a copy-writer at an advertising agency. She has spent the past few days browsing the help-wanted ads, but hasn't found anything that matches her skills. Stephanie is best classified as:
- A) structurally unemployed.
 - B) frictionally unemployed.
 - C) a discouraged worker.
 - D) out of the labor force.
11. If a country has a working-age population of 200 million, 135 million people with jobs, 10 million people who were looking for a job but have given up, and 5 million people unemployed and seeking employment, then its labor force is:
- A) 150 million.
 - B) 145 million.

- C) 140 million.
- D) 135 million.

12. All of the following create structural unemployment EXCEPT:

- A) a government-mandated price ceiling on the price of labor set above the equilibrium wage.
- B) collective bargaining efforts that secure higher wages for unionized workers relative to non-unionized workers.
- C) offering high wages in order to attract high-quality workers.
- D) granting Social Security benefits to laid-off workers.

13. Which of the following is true?

- A) Unexpected inflation benefits lenders and hurts borrowers.
- B) Unexpected inflation benefits borrowers and hurts lenders.
- C) Unexpected inflation benefits borrowers but does not affect lenders.
- D) Unexpected deflation benefits lenders but does not affect borrowers.

14. The long-run Phillips curve is:

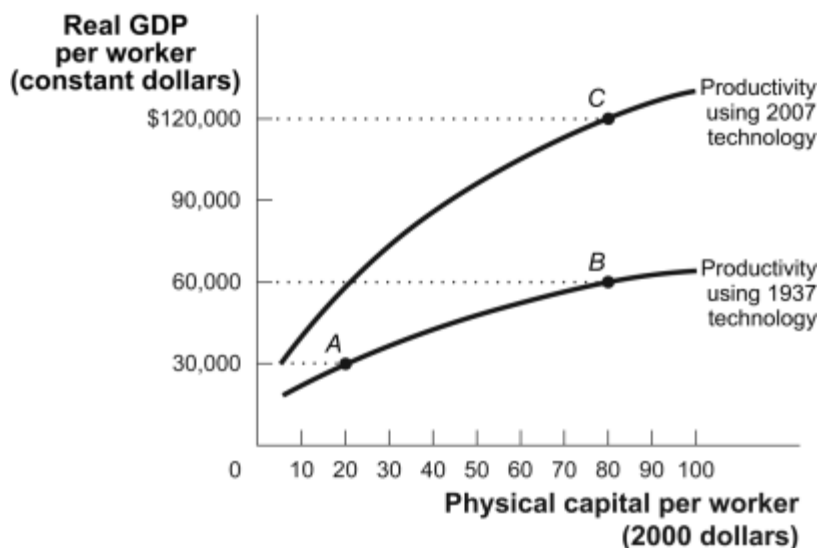
- A) the same as the short-run Phillips curve.
- B) negatively sloped, showing an inverse relationship between unemployment and inflation.
- C) vertical at the nonaccelerating-inflation rate of unemployment (NAIRU).
- D) unrelated to the NAIRU.

15. Economists say that long-run economic growth is almost entirely due to:

- A) rising productivity.
- B) population growth.
- C) a democratically elected government.
- D) a balanced budget.

Use the following to answer question 16.

Figure: Technological Progress and Productivity Growth



16. (Figure: Technological Progress and Productivity Growth) Which of the following moves could have resulted from an increase in foreign investment spending?
- A) *A* to *B*
 - B) *B* to *C*
 - C) *B* to *A*
 - D) both *A* to *B* and *B* to *C*
17. The Fisher Effect states that:
- A) the nominal rate of interest is unaffected by the change in expected inflation.
 - B) the nominal rate of interest is unaffected by the change in unexpected inflation.
 - C) the expected real rate of interest is unaffected by the change in expected inflation.
 - D) the expected real rate of interest increases by one percentage point for each percentage change in expected inflation.
18. Seigniorage refers to the:
- A) problems faced by Social Security as the population ages.
 - B) government's right to print money.
 - C) problems senior citizens face in retirement.
 - D) problems created when the government prints too much money.
19. Diminishing returns to physical capital means that as more and more physical capital is combined with a fixed amount of human capital with a fixed technology, eventually:
- A) aggregate output or real GDP declines.
 - B) aggregate output or real GDP grows.
 - C) additions to aggregate output or real GDP declines.
 - D) additions to aggregate output or real GDP increases.

Use the following to answer question 20.

Scenario: Aggregate Production Function

After holding the human capital per worker and technology unchanged, the estimated aggregate production function of the country of Behr is: $\frac{Y}{L} = 50 \times \frac{K}{L}$, where Y = real output, L = number of workers, and K =quantity of physical capital.

20. (Scenario: Aggregate Production Function) When the real GDP per worker equals \$3,200, the physical capital per worker will equal:

- A) \$81.
- B) \$64.
- C) \$49.
- D) \$100.

21. A survey reveals that on a small island 100 people have jobs, 25 people are looking for jobs, and 45 people are neither working nor looking for work. The unemployment rate on the island is:

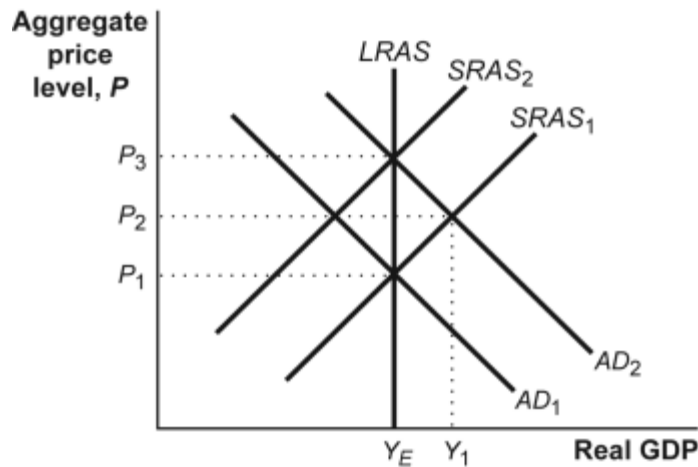
- A) 12.5%.
- B) 20.0%.
- C) 25.0%.
- D) 50.0%.

22. Shoe-leather costs refer to the costs of:

- A) raw material used in production.
- B) increased number of transactions as inflation increases.
- C) living adjustments as inflation increases.
- D) raw material used in production, increased number of transactions as inflation increases, and living adjustments as inflation increases.

Use the following to answer question 23.

Figure: AD-AS Model



23. (Figure: *AD-AS* Model) Suppose the economy is currently at Y_E with a price level of P_1 . Which of the following would represent the new long-run equilibrium position if the aggregate demand curve shifted to the right from AD_1 to AD_2 as a result of an increase in the money supply?

- A) Y_E and P_2
- B) Y_E and P_1
- C) Y_1 and P_2
- D) Y_E and P_3

24. If the actual unemployment rate is 7% and the cyclical unemployment rate is 2%, then the natural rate of unemployment is:

- A) 2%.
- B) 5%.
- C) 7%.
- D) 9%.

25. A minimum wage in a labor market is set _____ the equilibrium wage and creates a _____ of labor.

- A) below; surplus
- B) below; shortage
- C) above; surplus
- D) above; shortage

26. Which of the following is a chief measure of economic growth over time?

- A) inflation
- B) increases in real per capita GDP
- C) decline in real interest rates
- D) increases in the available labor supply

27. If the public holds \$300 billion in monetary purchasing power and the inflation rate is 5%, then the inflation tax that year is:

- A) \$5 billion.
- B) \$15 billion.
- C) \$60 billion.
- D) \$1500 billion.

28. When the economic situation is such that monetary policy can no longer be used because the nominal rate of interest can not fall below zero, it is called:

- A) the liquidity preference.
- B) the money neutrality.
- C) the liquidity trap.
- D) the money illusion.

29. During rapid price inflation, firms must frequently change prices. The cost of changing prices is known as the:

- A) menu costs.
- B) real interest rate costs.
- C) shoe-leather costs.
- D) unit-of-account costs.

30. During periods of deflation _____ will be hurt and _____ will be helped.

- A) firms; borrowers
- B) borrowers; lenders
- C) consumers; firms
- D) home buyers; home sellers

Answer Key - Midterm3-B

1. B
2. A
3. D
4. C
5. D
6. A
7. D
8. C
9. C
10. B
11. C
12. D
13. B
14. C
15. A
16. D
17. C
18. B
19. C
20. B
21. B
22. B
23. D
24. B
25. C
26. B
27. B
28. C
29. A
30. B