ECON201 Exam II Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Fall 2018

**A. Multiple Choice.** Circle the correct letter beside the correct answer. I will only count 15 questions. 3 points each, 30 points total.

1. True or false: purchases of stocks and bonds are included in GDP.
   1. True
   2. False
2. Which of the following count in GDP?
   1. Receiving $20 from your uncle for graduation
   2. Buying a textbook from a friend for a class she took last semester
   3. Growing vegetables in your backyard for your own consumption
   4. Paying the realtor fees for the service of helping you purchase a home built 10 years ago
3. How is a mother on maternity leave counted by the BLS?
   1. Employed
   2. Unemployed
   3. Out of the labor force
   4. Institutionalized
4. Which type of unemployment is Jerome, if Jerome lost his job because his skill set is no longer demanded in his location?
   1. Cyclical
   2. Structural
   3. Frictional
5. Which of these is NOT an accurate definition of inflation?
   1. Increase in the money supply
   2. Increase in the price level
   3. Each dollar buys fewer goods and services
   4. Decrease in the purchasing power of the dollar
6. Which of the following would likely cause an increase in consumer spending?
   1. Decrease in the stock market index
   2. Increase in total borrowing
   3. Increase in real interest rates
   4. Decrease in income
7. Which of the following would likely cause an increase in investment spending?
   1. Decrease in capacity utilization rates
   2. Decrease in current sales and profits
   3. Unexpected decrease in inventories
   4. Increase in real interest rates
8. Which of the following would likely cause an increase in net exports?
   1. Decrease in GDP and National income of primary trading partner
   2. Increase in tariffs and quotas
   3. Depreciation of the currency
   4. Unexpected increase in inventories
9. Which of the following is true regarding household composition in the United States?
   1. A higher percentage of households are married than in the past
   2. Children living in single parent households are less likely to live in poverty
   3. Average household size has decreased lately
   4. Households are having more children than in the past
10. Which of the following is NOT true regarding businesses in the United States?
    1. S corporations have not increased in number as much as C corporations lately
    2. Pass-through businesses make up the vast majority of businesses
    3. C corporations are more likely to be large employers of workers (>500 employees)
    4. Large businesses (500+ employees) employed the majority of all employees

**B. Short answer**. Answer each question in a sentence or less. 3 points each, 27 points total.

1. What drives the aggregate economy?
2. What happens to the marginal propensity to consume as income increases, according to evidence?
3. What three main factors does the Human Development Index consider?
4. How do businesses and workers play the ‘inflation game’?

1. What are the two ways a household can spend more than its income?
2. Name *three* potential causes of inflation.
3. What do we call the negative multiplier effect caused by households trying to increase their saving?
4. Name one argument for protectionism.
5. Which expenditure component of GDP is the largest and is marked by ‘smoothing’, adding to its stability?

**C. Problem Solving.**

1. Complete the table given the data below. The two far right columns are extra credit. 2 points per blank box. 14 points total

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Nominal GDP | Price Level | Population | Real GDP/capita | Real GDP growth rate | Real GDP/capita growth rate |
| Year 1 | $21,000,000 | 105 | 2000 |  | -- | -- |
| Year 2 | $22,660,000 | 110 | 2040 |  |  |  |
| Year 3 | $23,760,000 | 108 | 2095 |  |  |  |

1. Calculate inflation and core inflation from year 1 to year 2 by completing the table below. You can present your answer as a percentage to the nearest hundredth or as a fraction. Note that there are six blanks to fill in the table (12 points):

|  |  |  |
| --- | --- | --- |
|  | Year 1 | Year 2 |
| Food | $200 | $175 |
| Energy | 150 | 130 |
| Insurance | 85 | 85 |
| Housing | 350 | 360 |
| Entertainment | 125 | 130 |
| Other Services | 220 | 225 |
| Price Level |  |  |
| Inflation Rate |  | |
| Core Price Level |  |  |
| Core Inflation Rate |  | |

1. Calculate the following unemployment indicators given the data below. Your answer can take the form of a fraction or a percentage rounded to the nearest tenth. 8 points.

|  |  |
| --- | --- |
| Total Population | 300 |
| Children (15 years old or younger) | 50 |
| Full time employees | 115 |
| *Total* Part time employees | 25 |
| Part time employees for economic reasons | 7 |
| Unemployed | 10 |
| Marginally attached workers | 5 |
| Retirees | 36 |
| Institutionalized | 1 |

A) U3:

B) U5:

C) U6:

D) *Potentially* in the labor force, but *not* in the labor force:

**D. Essay.** Answer two of the following questions in complete sentences. Answers should be complete but concise. 10 points each

23. Describe the economic and noneconomic costs of unemployment.

24. Explain how GDP is and is not a useful indicator of our well-being.

25. Explain the significance of inflation to our overall well-being.

26. Explain why demand or spending and not supply or productive capacity drives the economy.