ECON201 Final Exam A Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Fall 2018

**A. Multiple Choice.** Circle the correct letter or write the correct letter to the left of the question. 2 points each, 32 points total.

1. What is the meaning of the root word for economics, *oikonomia*, in the way ancient Greeks used it?
   1. The art of maintaining the household
   2. The art of making money
   3. The art of producing and consuming
   4. The art of dealing with scarcity
2. Which of the following is NOT a reason why it is difficult to obtain certainty of knowledge in economics?
   1. It is difficult to perform experiments of people’s economic behavior
   2. Surveys of economic variables are often wildly inaccurate
   3. It is difficult to measure all the relevant variables
   4. Economic investigators might be biased or suffer from corruption
3. Which of the following count in GDP?
   1. Receiving $50 from your grandma for your birthday
   2. Growing vegetables in your backyard for your own consumption
   3. Making new furniture out of old furniture as part of your restoration business
   4. Purchasing stock in a start-up company
4. Which of the following are included in the labor force?
   1. Marginally attached workers
   2. Prison inmates
   3. Retirees
   4. Unemployed, but looking
5. Which definition of full employment is used by most economists?
   1. 0% U3 unemployment
   2. 0% U5 unemployment
   3. 0% Potential labor force
   4. Non-Accelerating Inflation Rate of Unemployment (NAIRU)
6. How is a mother on maternity leave counted by the BLS?
   1. Out of the labor force
   2. Institutionalized
   3. Employed
   4. Unemployed
7. Which of these is NOT an accurate definition of inflation?
   1. Increase in the price level
   2. Increase in the money supply
   3. Each dollar buys fewer goods and services
   4. Decrease in the purchasing power of the dollar
8. True or false: the US federal government cannot involuntarily default on its debt.
   1. True
   2. False
9. Which of these financial derivatives was use to bet against other financial securities?
   1. Collateralized Debt Obligation
   2. Collateralized Default Swap
   3. Mortgage Backed Security
   4. Credit Default Swap
10. 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. Households are having fewer children than in the past
    4. Average household size has increased lately
11. Which of the following would likely cause an increase in consumer spending?
    1. Decrease in the stock market index
    2. Increase in income
    3. Decrease in total borrowing
    4. Increase in real interest rates
12. Which of the following is expansionary fiscal policy?
    1. Increasing the deficit
    2. Lowering interest rates
    3. Raising interest rates
    4. Increasing the surplus
13. To what purpose does the Fed use its primary tool, open market operations?
    1. Target the federal funds rate
    2. Control the supply of money
    3. Control the monetary base
    4. Bail out banks that are insolvent
14. Which must come first?
    1. US Government taxing
    2. US Government spending
15. Which of the following is NOT a reason why the US government needs to tax or borrow?
    1. Provide treasury securities for the private sector so the Fed can operate monetary policy
    2. Enable government spending without causing inflation
    3. Fund spending operations
    4. Create a demand for the nation’s currency, the dollar
16. Which of the following is NOT a primary characteristic of capitalist economic systems?
    1. Freedom of enterprise
    2. Class of productive-property owners
    3. Class of workers who do not own productive property
    4. Guaranteed access to healthcare and education

**B. Short answer**. Answer each question in a sentence or less. 2 points each, 38 points total.

1. How does Professor Binder define economics?
2. Name two of the three reasons or justifications for a downward sloping demand curve.
3. What are the three main statistical indicators used to gauge the health of the aggregate economy?
4. What are the two ways a household can spend more than its income?
5. What were the two major modifications made to early capitalist economic systems to more closely resemble today’s modern capitalist economic systems?
6. List two problems people encounter when attempting to perform cost-benefit analysis to make choices.
7. Name two reasons why demand or spending drives the aggregate economy.
8. How do workers play the inflation game?
9. Which expenditure component of GDP is the largest and marked by smoothing adding to its stability?
10. What do we call the negative multiplier effect caused by households trying to increase their saving?
11. Which macroeconomic problem has the U.S. encountered more often over the last century: insufficient aggregate supply (productive capacity) or insufficient aggregate demand (spending)?
12. What is the relationship between US federal government deficits and private sector savings (for simplicity, assume there is no foreign sector)?
13. How is most of the money (M1) in the United States created?
14. What is the concern if the government runs too large of a budget deficit?
15. Why is comparing the United States’ debt and Greece’s debt fundamentally unsound?
16. What investment bank was allowed to fail in September 2008 initiating the financial crisis?
17. What has happened to the poverty rate and to income inequality in the United States over the last few decades?

Poverty rate:

Income Ineqality:

1. What was the most interesting thing you learned this semester?
2. What question do you still have that was left unanswered by the course or topic that you wish we could have spent more time on?

**C. Short Essay and Problem Solving**.

1. Explain the securitization food chain and how it contributed to the 2008 financial crisis in complete sentences. 8 points.
2. Answer the following items given the information in the table. Answer A and B as a percentage to the nearest tenth of a percent, e.g. 8.9%. 6 points.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Nominal GDP | Price Level | Population | Real GDP per capita |
| Year 1 | $20,000,000 | 100 | 1,000 |  |
| Year 2 | $21,000,000 | 102 | 1,020 |  |

A. Real GDP per capita growth rate:

B. Inflation rate:

C. Which is higher: Nominal GDP growth rate or Real GDP per capita growth rate?

1. What is the US Private Sector Balance if the government’s deficit is $800 billion and US net imports are $450 billion? 2 points.
2. The latest data indicate the US’s real GDP growth rate is 7%, U3 unemployment rate is 3.0%, and inflation rate is 8.5%. What is the likely course of action for both fiscal and monetary policy, who decides each, and how will that course of action affect the macro economy? 10 points.
3. 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 (5.8% for example). 4 points.

|  |  |
| --- | --- |
| Total Population | 800 |
| Children (15 years old or younger) | 250 |
| Full time employees | 440 |
| *Total* Part time employees | 45 |
| Part time employees for economic reasons | 12 |
| Unemployed | 20 |
| Marginally attached workers | 14 |
| Retirees | 65 |
| Institutionalized | 8 |

A. U3:

B. U5:

41. Diagram what happens to the supply, demand, and equilibrium in the market for pizza when these events occur simultaneously: 1) consumer incomes at all levels have increased and are continuing to increase and 2) the price of cheese used in pizza has increased. Assume the market is perfectly competitive. Draw the graph and label it correctly, show the correct shifts in the curves, and plot the initial and final equilibrium points. Keep in mind that you do not know the magnitude of the shifts, just the direction. 8 points.

What happens to equilibrium price? What happens to equilibrium quantity?