Mid-Term Test
Econ 204-F01

Friday, 15th October 2004 **Duration: 35 Minutes** **Total Marks: 100**

Note:

(1.) There are twenty-five questions. Answer all of them.

(2.) All questions carry equal marks (4 marks each).

(3.) All questions are multiple-choice type.

(4.) Cross the right answer in the question paper (use ink).

(5.) Don't forget to write down your name and student number.

(6.) Only non-programable calculator is allowed.

(7.) Space is provided at the end of question paper to do the rough work.

(8.) Question paper has eight pages including the cover page.

Best of Luck !

Student Name

Student Number

Questions

1. Which of the following is *not* a topic of macroeconomics?

a. why nations have different rates of growth?
b. what causes inflation and what can be done about it?
c. what factors contribute to the presence of monopolies in the economy?
d. why unemployment periodically reaches a very high levels?

2. When national output declines, the economy is said to be in

a. an expansion
b. a deflation
c. a recovery
d. a recession

3 In 2001 Anchovy had imports of $50 billion, exports of $60 billion, and GDP of $ 300 billion. The trade surplus was what percent of GDP in 2001?

a. 3.3%
b. 10.0%
c. 16.7%
d. 20.0%

4. The main goal of macroeconomic research is to

a. predict how the macro-economy will perform in the future.
b. analyze current macroeconomic data.
c. develop new data.
d. make general statements about how the economy works.

5. Equilibrium in the economy means

a. unemployment is zero.
b. quantities demanded and supplied are equal in all markets.
c. prices aren't changing over time.
d. tax revenue equals government spending.

6. The Keynesian approach to macroeconomics assumes

a. wages, but not prices, adjust quickly to bring equilibrium.
b. both wages and prices adjust quickly to bring equilibrium.
c. prices, but not wages, adjust quickly to bring equilibrium.
d. neither wages nor prices adjust quickly to bring equilibrium.

7. The measurement of GDP includes

a. nonmarket goods such as child rearing.
b. the benefits of clean air.
c. estimated value of underground activities.
d. value of inventory.

8. Inventories are

a. included in the measurement of capital goods.
b. included in the measurement of intermediate goods.
c. fully included in annual measurements of GDP.
d. included in the measurements of GDP only if they have changed from the preceding year.

9. GDP differs from GNP because

a. GDP = GNP - net factor payment from abroad
b. GNP = GDP - net factor payment from abroad
c. GDP = GNP - depreciation
d. GNP = GDP - depreciation

10. If nominal GDP for 2000 is $6400 billion and real GDP for 2001 is $6720 billion (in 2000 dollars), then the growth rate of real GDP is

a. 0%
b. 0.5%
c. 5%
d. 50%

11. The two main characteristics of the production function are

a. it slopes downward from left to right, and the slope becomes flatter as the input increases.
b. it slopes upward from left to right, and the slope becomes steeper as the input increases.
c. it slopes upward from left to right, and the slope becomes flatter as the input increases.
d. it slopes downward from left to right, and the slope becomes steeper as the input increases.

12. An increase in population will cause

a. the aggregate labor supply curve to shift to the right.
b. the aggregate labor demand curve to shift to the left.
c. both the aggregate labor supply curve and the aggregate labor demand curve to shift to the right.
d. a movement along the labor demand curve.

13. Firms hire labor at the point where the

a. nominal wage rate equals the marginal product of labor.
b. real wage rate equals the marginal product of labor.
c. nominal wage rate equals the marginal product of labor.
d. real wage rate equals the marginal revenue product of capital.

14. An adverse supply shock would

a. increase the marginal product of labor.
b. decrease the marginal product of labor.
c. decrease the marginal product of capital, but have no effect on the marginal product of labor.
d. not affect the marginal product of labor.

15. An increase in the capital stock

a. increase the marginal product of labor.
b. decrease the marginal product of labor.
c. increase the marginal product of capital, but have no effect on the marginal product of labor.
d. not affect the marginal product of labor.

16. One's supply of labor primarily depends on
   a. one's marginal productivity.
   b. the quantity of capital one can work with.
   c. the amount of human capital one can supply on the job.
   d. the trade-off between labor income and leisure.

17. How does increase in future income affects current employment and the real wage rate?
   a. Both employment and the real wage rate would increase.
   b. Both employment and the real wage rate would decrease.
   c. Employment would increase and the real wage would decrease.
   d. Employment would decrease and the real wage would increase.

18. How does beneficial supply shock affects current employment and the real wage rate?
   a. Both employment and the real wage rate would increase.
   b. Both employment and the real wage rate would decrease.
   c. Employment would increase and the real wage would decrease.
   d. Employment would decrease and the real wage would increase.

19. With a nominal interest rate of 8%, an expected inflation rate of 3%, and interest income taxed at a 25%, what is the expected after-tax real interest rate?
   a. 5%
   b. 3.75%
   c. 3%
   d. 1%

20. The Ricardian equivalence proposition says that
   a. a budget deficit caused entirely by a current tax has no effect on the economy.
   b. a budget deficit caused entirely by an increase in government purchases has no effect on the economy.
   c. any budget deficit generated by the government has no effect on the economy.
   d. an increase in government spending accompanied by an equivalent increase in taxes has no effect on the economy.

21. How does an increase in tax rate on revenue affects the desired capital stock of firm?

a. raises it.
b. lowers it.
c. has no effect.

22. An economy has full-employment output of 5000. Government purchases are 1000. The desired consumption and desired investment are given by

$$c^d = 3000 - 2000r + 0.10Y$$

$$I^d = 1000 - 4000r$$

where Y is output and r is the real rate of interest. The equilibrium rate of interest equals

a. 1.25 %
b. 2.50 %
c. 8.33 %
d. 25.00 %

23. A higher real interest rate will

a. increase the profitability of new investment.
b. decrease lending of funds from firms to other economic agents.
c. reduce the desired investment of all firms.
d. reduce the desired investment of only those firms that have to borrow.

24. A lump-sum increase in current taxes would cause interest rates to

a. fall if Ricardian equivalence held.
b. fall if Ricardian equivalence did not hold.
c. fall regardless of whether Ricardian equivalence held.
d. rise.

25. Total factor productivity growth is that part of economic growth which is due to

a. capital growth plus labor growth.
b. capital growth less labor growth.
c. capital growth times labor growth.
d. neither capital growth nor labor growth.

Rough Work

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