

## Problem Set 4

### **Multiple choice questions:**

1. Which of the following is *not* included in GDP?
  - a. carrots grown in your garden and eaten by your family
  - b. carrots purchased at a farmer's market and eaten by your family
  - c. carrots purchased at a grocery store and eaten by your family
  - d. None of the above are included in GDP.
  
2. Gasoline is considered a final good if it is sold by a
  - a. gasoline station to a bus company that operates a bus route between San Francisco and Los Angeles.
  - b. pipeline operator to a gasoline station in San Francisco.
  - c. gasoline station to a motorist in Los Angeles.
  - d. All of the above are correct.
  
3. A U.S. grocery chain purchases olive oil from Tunisia and sells it to U.S. consumers. In which of the following is this transaction included?
  - a. U.S. consumption and U.S. imports
  - b. U.S. consumption but not U.S. imports
  - c. U.S. imports but not U.S. consumption
  - d. neither U.S. consumption nor U.S. imports
  
4. Which of the following is correct?
  - a. The GDP deflator is better than the CPI at reflecting the goods and services bought by consumers.
  - b. The CPI is better than the GDP deflator at reflecting the goods and services bought by consumers.
  - c. The GDP deflator and the CPI are equally good at reflecting the goods and services bought by consumers.
  - d. The GDP deflator is more commonly used as a gauge of inflation than the CPI is.
  
5. The price index was 150 in the first year, 160 in the second year, and 165 in the third year. Which of the following statements is correct?
  - a. The price level was higher in the second year than in the first year, and it was higher in the third year than in the second year.
  - b. The inflation rate was positive between the first and second years, and it was positive between the second and third years.
  - c. The inflation rate was lower between the second and third years than it was between the

- first and second years.
- d. All of the above are correct.
6. Which of the following is not a widely acknowledged problem with using the CPI as a measure of the cost of living?
- substitution bias
  - unmeasured price change
  - introduction of new goods
  - unmeasured quality change
7. Which of the following is a good gauge of economic progress?
- the level of real GDP per person, but not the growth rate of real GDP per person
  - the level of real GDP per person and the growth rate of real GDP per person
  - the growth rate of real GDP per person, but not the level of real GDP per person
  - neither the level nor the growth rate of real GDP per person
8. We would expect the interest rate on Bond A to be higher than the interest rate on Bond B if the two bonds have identical characteristics except that
- Bond A was issued by a financially weak corporation and Bond B was issued by a financially strong corporation.
  - Bond A was issued by the Exxon Mobil Corporation and Bond B was issued by the state of New York.
  - Bond A has a term of 20 years and Bond B has a term of 1 year.
  - All of the above are correct.
9. Suppose that the adult population in the country of Atlantis is 115 million. If 80 million people are employed and 5 million are unemployed, then
- 30 million are not in the labor force.
  - 35 million are in the labor force.
  - 75 million are in the labor force.
  - 35 million are not in the labor force.
10. Which list ranks assets from most to least liquid?
- money, bonds, cars, houses
  - money, cars, houses, bonds
  - bonds, money, cars, houses
  - bonds, cars, money, houses

***True/False questions:***

1. In years of economic contraction, firms throughout the economy increase their production of goods and services, employment rises, and jobs are easy to find.
2. For an economy as a whole, income must exceed the expenditure.
3. The consumer price index is used to monitor changes in an economy's production of goods and services over time.
4. When economists refer to investment, they mean the purchasing of stocks and bonds and other types of saving.
5. The amount of unemployment that a country typically experiences is a determinant of its standard of living.
6. A firm might offer efficiency wages in order to reduce shirking.
7. According to economists, "money" means the same thing as "wealth".

***Answer the following questions:***

- 1) What is the difference between human capital and technology?
- 2) In addition to investment in physical and human capital, what other public policies might a country adapt to increase productivity?
- 3) Explain why the demand for loanable funds slopes downward and why the supply of loanable funds slopes upward.
- 4) What is the difference between commodity money and fiat money? Why do people accept fiat money in trade for goods and services?
- 5) Following the recession of 2001, there was a month in which employment and the unemployment rate both rose. Assuming the computations were correct, how is it possible for both to have increased?
- 6) Explain why banks can influence the money supply if the required reserve ratio is less than 100 percent.
- 7) Describe the two things that limit the precision of the Fed's control of the money supply and explain how each limit that controls.