

Exercise session 4

- 1) Deborah and Greg make ice cream. Deborah works five hours a day and makes 100 pints a day. Greg works 8 hours a day and makes 120 pints a day.
 - A. Deborah's production and productivity are higher than Greg's.
 - B. Deborah's production is greater than Greg's but her productivity is less.
 - C. Deborah's productivity is greater than Greg's but her production is less.**
 - D. Deborah's production and productivity are both less than Greg's.

- 2) Which of the following would not lead to an increase in per worker productivity?
 - A. discovery of a new mineral deposit
 - B. an advance in technological knowledge
 - C. a tornado destroys a few miles of railroad**
 - D. the population gets easier access to education

- 3) Which answer is not a way to promote economic growth?
 - A. Good nutrition
 - B. Free trade
 - C. Minimum wage**
 - D. Funding research

- 4) Ryan is spending less than he's earning, and he uses his unspent income to buy some stock from Phi Optics Corporation. A macroeconomist will call Ryan's act:
 - A. investing
 - B. saving**
 - C. both investing and saving

D. neither investing nor spending

- 5) Assuming that Intel needs to borrow money in the bond market, why would an increase in interest rates affect Intel's decision about whether to build the factory?
Answer: If interest rates increase, the costs of borrowing money to build the factory become higher, so the returns from building the new plant may not be sufficient to cover the costs. Thus, higher interest rates make it less likely that Intel will build the new factory.
- 6) If Intel has enough of its own funds to finance the new factory without borrowing, would an increase in interest rates still affect Intel's decision about whether to build the factory? Explain.
Answer: Even if Intel uses its own funds to finance the factory, the rise in interest rates still matters. There is an opportunity cost on the use of the funds. Instead of investing in the factory, Intel could use the money to purchase bonds and earn the higher interest rate available there. Intel will compare its potential returns from building the factory to the potential returns from the bond market. If interest rates rise, so that bond market returns rise, Intel is again less likely to invest in the factory.
- 7) Suppose that in a closed economy GDP is equal to 15,000, taxes are equal to 4,000, consumption equals 10,000, and government expenditures equal 3,000. What are private saving and public saving?
A. 1,000 and 1,000
B. 1,000 and -1,000
C. 2,000 and 1,000
D. 2,000 and -1,000
- 8) In the language of macroeconomics, a higher interest rate induces people to
A. save more, so the supply of loanable funds slopes upward.
B. save less, so the supply of loanable funds slopes downward.
C. invest more, so the supply of loanable funds slopes upward.
D. invest less, so the supply of loanable funds slopes downward.
- 9) In the last few years the U.S. government budget deficit has increased. Other things the same this means the
A. supply of loanable funds shifted right, interest rate increased, and quantity of loanable funds declined.
B. supply of loanable funds shifted left, interest rate increased, and quantity of loanable funds declined.
C. demand for loanable funds shifted right, interest rate increased, and quantity of loanable funds increased.

D. demand for loanable funds shifted left, interest rate decreased, and quantity of loanable funds declined.

10) Other things constant, if the government increases its expenditures but not taxes

A. public saving and the interest rate will rise.

B. public saving will rise and the interest rate will fall.

C. public saving will fall and the interest rate will rise.

D. public saving and the interest rate will fall.

11) An investment tax credit

A. shifts the demand for loanable funds right and raises the interest rate.

B. shifts the demand for loanable funds left and lowers the interest rate.

C. shifts the supply of loanable funds right and lowers the interest rate.

D. shifts the supply of loanable funds left and raises the interest rate.

12) Suppose that the public consumes \$200 billion less relative to the previous year and the government spends \$100 billion less. Other things constant, what happens to the supply of loanable funds?

A. It shifts right by \$100 billion.

B. It shifts right by \$200 billion.

C. It shifts right by \$300 billion.

D. None of the above is correct.

13) Which of the following people are included in the labor force?

A. Dean who worked without pay for his family's business

B. Sam, a part-time worker

C. Cass who is not employed but has been looking for employment in the past four weeks

D. All of the above are counted in the labor force

14) In 2009, towards the end of the Great Recession, some people became discouraged and quit looking for work. Other things the same, as they quit looking for work, according to the BLS

A. the labor force and the unemployment rate would both fall.

- B. the labor force would be unchanged and the unemployment rate would fall.
- C. the labor force would fall and the unemployment rate would be unchanged.
- D. None of the above are correct.

15) Suppose that in some state the adult population is 4 million, the labor force participation rate is 75%, and 250,000 people are unemployed. What is the unemployment rate (to the nearest tenth)? **8.3%**

16) Since 1950, the labor-force participation rate for women increased from 33 to 57 percent. Which of the following is a good explanation for this increase?

- A. new technologies, such as the washing machine, reduced the amount of time required to complete routine household tasks
- B. improved birth control, which reduced the number of children per family
- C. changing political and social attitudes towards women working outside the household

D. all of the above

17) In 1914, Henry Ford introduced the concept of a \$5 workday (about twice the going wage). Which of the following happened?

- A. long lines of job seekers formed outside the Ford factories.
- B. turnover fell, absenteeism fell, and productivity rose.
- C. Ford's production costs were lower despite higher wages.
- D. **all of the above.**