

## Exercise Session 5

### Multiple choice questions:

Choose the correct answer

1. A macroeconomist is interested in
  - a. explaining how changes in sellers' behavior affect prices of a particular good.
  - b. explaining price changes in a particular market.
  - c. explaining why the unemployment rate is higher.
  - d. All of the above are correct.
  
2. Productivity is defined as the
  - a. amount of goods and services produced from each unit of labor input.
  - b. number of workers required to produce a given amount of goods and services.
  - c. amount of labor that can be saved by replacing workers with machines.
  - d. actual amount of effort workers put into an hour of working time.
  
3. A direct or positive relationship exists between a country's
  - a. productivity and its standard of living.
  - b. amount of government spending and its productivity.
  - c. total population and its average citizen's income.
  - d. rate of population growth and the extent of its trade with other countries.
  
4. Estimates of the values of which of the following non-market goods or services are included in GDP?
  - a. unpaid housework but not the rental value of owner-occupied homes.
  - b. the rental value of owner-occupied homes but not unpaid housework.
  - c. unpaid housework and the rental value of owner-occupied homes.
  - d. Neither unpaid housework nor the rental value of owner-occupied homes.

5. A U.S.-owned automobile factory uses \$100,000 worth of parts purchased from foreign countries along with U.S. inputs to produce 30 cars worth \$20,000 each. Twenty of these cars are sold and 10 are left in inventory. How much did these actions add to GDP?

- a. \$300,000
- b. \$500,000
- c. \$600,000
- d. \$700,000

6. Atlas Corporation is in sound financial condition. It sells a long-term bond. Which of the following make the interest rate on this bond lower than otherwise?

- a. Both Atlas' sound finances and the long term of the bond.
- b. The long term of the bond but not Atlas' sound finances.
- c. Atlas' sound finances but not the long term of the bond.
- d. Neither Atlas' sound finances nor the long term of the bond.

7. US citizens have better nutrition, better healthcare, and a longer life expectancy than citizens of Ghana. Which of the following conclusions can be drawn from this statement?

- a. Average income in the US is higher than the average income in Ghana.
- b. The US has a higher standard of living than Ghana.
- c. Productivity in the US is higher than productivity in Ghana.
- d. All of the above are correct.

8. For an imaginary closed economy,  $T = \$5,000$ ;  $S = \$11,000$ ;  $C = \$48,000$ ; and the government is running a budget surplus of \$1,000. Then

- a. private saving = \$10,000 and GDP = \$55,000.
- b. private saving = \$10,000 and GDP = \$63,000.
- c. private saving = \$12,000 and GDP = \$67,000.
- d. private saving = \$12,000 and GDP = \$69,000.

9. People who are unemployed because wages are, for some reason, set above the level that brings labor supply and demand into equilibrium are best classified as

- a. cyclically unemployed.
- b. frictionally unemployed.
- c. discouraged workers.
- d. structurally unemployed.

10. Cyclical unemployment is caused by

- a. neither frictional nor structural unemployment.
- b. frictional and structural unemployment.
- c. frictional but not structural unemployment.
- d. structural but not frictional unemployment.

11. The value of money varies:

- A) inversely with the price level.
- B) directly with the price level.
- C) directly with the volume of employment.
- D) directly with the interest rate.

12. Other things equal, an excessive increase in the money supply will :

- A) increase the purchasing power of each dollar.
- B) decrease the purchasing power of each dollar.
- C) have no impact on the purchasing power of the dollar.
- D) reduce the price level.

13.

Year	Price level	Value of dollar
1	1.00	\$1:00
2	1.25	
3	0.8	
4	0.5	

Refer to the above table. The value of the dollar in year 2 is:

- A) \$1.25.
- B) \$1.33.
- C) \$.80.
- D) \$1.00.

14. It is costly to hold money because:

- A) deflation may reduce its purchasing power.
- B) bond prices are highly variable.
- C) in doing so one sacrifices interest income.
- D) the velocity of money may decline.

15. If nominal GDP is \$600 billion and, on the average, each dollar is spent three times per year, then the

amount of money demanded for transactions purposes will be:

- A) \$1800 billion.
- B) \$600 billion.
- C) \$200 billion.
- D) \$1200 billion.

## True/False questions

State whether statement is true or false, no explanation needed.

- 1) The goal of macroeconomics is to explain the economic changes that affect many households, firms, and markets simultaneously.
- 2) If a good produced this quarter goes into inventory, then it is included in this period's GDP. If it is sold in the next quarter, it will have no effect on GDP
- 3) The consumer price index is used to monitor changes in an economy's production of goods and services over time.
- 4) If Congress instituted an investment tax credit, the demand for loanable funds would shift rightward.
- 5) Constant returns to scale is the point on a production function where increasing inputs will no longer increase output.
- 6) Anything other than a change in the interest rate that decreases national saving shifts the supply of loanable funds to the left.
- 7) The adult population must equal the sum of the employed and the unemployed.
- 8) If people who report being unemployed are not, in fact, trying hard to find a job, then the reported unemployment rate will be biased upward.

### ***Answer the following questions:***

- 1) What are the three categories into which the central statistical office divides everyone? How does it compute the labor force, the unemployment rate, and the labor force participation rate?
- 2) Why is frictional unemployment inevitable? How might the government reduce the amount of frictional unemployment?
- 3) What claims do advocates of unions make to argue that unions are good for the economy?
- 4) Draw the supply curve and the demand curve for a labor market in which the wage is fixed above the equilibrium level. Show the quantity of labor supplied, the quantity demanded, and the amount of unemployment.

5) Are the following workers more likely to experience short-term or long-term unemployment? Explain.

a. a construction worker laid off because of bad weather.

b. a manufacturing worker who loses her job at a plant in an isolated area.

c. a coach-industry worker laid off because of competition from railroads.

d. a short-order cook who loses his job when a new restaurant opens across the street.

e. an expert welder with little formal education who loses her job when the company installs automatic welding machinery.

6) Using a diagram of the labor market, show the effect of an increase in the minimum wage on the wage paid to workers, the number of workers supplied, the number of workers demanded, and the amount of unemployment.

7) Suppose that Congress passes a law requiring employers to provide employees some benefit (such as health care) that raises the cost of an employee by \$4 per hour.

a. What effect does this employer mandate have on the demand for labor? (In answering this and the following questions, be quantitative when you can.)

b. If employees place a value on this benefit exactly equal to its cost, what effect does this employer mandate have on the supply of labor?

c. If the wage is free to balance supply and demand, how does this law affect the wage and the level of employment? Are employers better or worse off? Are employees better or worse off?

d. Now suppose that workers do not value the mandated benefit at all. How does this alternative assumption change your answers to parts (b) and (c) above?

8) Explain why the best educational policies to promote faster growth might be different in the following countries.

a. Mozambique

b. Brazil

c. France

9) Explain the difference between final goods and intermediate goods. Why is it sometimes difficult to apply this distinction in practice? In this regard, why is the concept of value added useful?

10) Give some reasons why the gross domestic product is not a suitable measure of the well-being of the nation. (Have you noticed newspaper accounts in which journalists seem to use GDP for this purpose?)