Econ 20B Spr 2008

Sample Final Exam

Prof. Min Ouyang

Please Do this sample final exam before looking at the answer key!!!

Time limit: 120 minutes

Instructions:

1) The exam is closed book.
2) Final exam is 40% of the course grade!!!
3) Please use **ink pens** to write your answers.
4) Use of non-programmable calculator is permitted.
5) Please show your ID and your calculator when turning in the exam.

Part I – Choice Questions

1. GDP is not a perfect measure of well-being; for example,
    a. GDP excludes the value of volunteer work.
    b. GDP does not address the distribution of income.
    c. GDP does not address environmental quality.
    d. All of the above are correct.

2. Suppose that in the economy in general efficiency wages become more common. Economists would predict that this would
    a. increase the quantity demanded and decrease the quantity supplied of labor thereby decreasing the natural rate of unemployment.
    b. decrease the quantity demanded and increase the quantity supplied of labor thereby increasing the natural rate of unemployment.
    c. increase the quantity demanded and decrease the quantity supplied of labor thereby increasing the natural rate of unemployment.
    d. decrease the quantity demanded and increase the quantity supplied of labor thereby decreasing the natural rate of unemployment.

3. An increase in the price of domestically-produced industrial robots will be reflected in
    a. both the GDP deflator and the consumer price index.
    b. neither the GDP deflator nor the consumer price index.
    c. the GDP deflator but not in the consumer price index.
    d. the consumer price index but not in the GDP deflator.

4. Other things equal, relatively poor countries tend to grow
    a. slower than relatively rich countries; this is called the poverty trap.
    b. slower than relatively rich countries; this is called the fall-behind effect.
    c. faster than relatively rich countries; this is called the catch-up effect.
    d. faster than relatively rich countries; this is called the constant-returns-to-scale effect.

5. According to classical macroeconomic theory, changes in the money supply affect
   a. nominal variables and real variables.
   b. nominal variables, but not real variables.
   c. real variables, but not nominal variables.
   d. neither nominal nor real variables.

6. Other things the same, if workers and firms expected prices to rise by 2 percent but instead they rise by 3 percent, then
   a. employment and production rise.
   b. employment rises and production falls.
   c. employment falls and production rises.
   d. employment and production fall.

7. From 2001 to 2005 there was a dramatic rise in the price of houses. If this made people feel wealthier, then it would shift
   a. aggregate demand right.
   b. aggregate demand left.
   c. aggregate supply right.
   d. aggregate supply left.

8. When taxes increase, consumption
   a. decreases as shown by a movement to the left along a given aggregate demand curve.
   b. decreases as shown by shifting aggregate demand to the left.
   c. increases as shown by shifting aggregate supply the left.
   d. None of the above is correct.

9. The long-run aggregate supply curve shows that by itself a permanent change in aggregate demand would lead to a long-run change
    a. in the price level and real GDP.
    b. in the price level, but not real GDP.
    c. in real GDP, but not the price level.
    d. in neither the price level nor real GDP.

10. A candidate for political office announces the following policies which, he says, economics clearly demonstrates will lead to higher output in the long run. 1. reduce immigration from abroad 2. make trade more open between the US and other countries.
    a. 1 and 2 both shift long-run aggregate supply right.
    b. 1 and 2 both shift long-run aggregate supply left.
    c. 1 shifts long-run aggregate supply right, 2 shifts long-run aggregate supply left.
    d. 1 shifts long-run aggregate supply left, 2 shifts long-run aggregate supply right.

11. The government of Libertina considers two policies. Policy A would shift AD right by 200 units while policy B would shift AD right by 100 units. According to the short-run Phillips curve policy A will lead
    a. to a lower unemployment rate and a lower inflation rate than policy B.
    b. to a lower unemployment rate and a higher inflation rate than policy B.
    c. to a higher unemployment rate and lower inflation rate than policy B.
    d. to a higher unemployment rate and higher inflation rate than policy B.

12. An economic contraction caused by a shift in aggregate demand causes prices to
    a. rise in the short run, and rise even more in the long run.
    b. rise in the short run, and fall back to their original level in the long run.
    c. fall in the short run, and fall even more in the long run.
    d. fall in the short run, and rise back to their original level in the long run.

13. Find an example or examples of expansionary policy by the Federal government.
    a. an decrease in government purchases
    b. an increase in tax rates
    c. an increase in government purchases
    d. neither of them

14. Who are the current chairman of the Federal Reserve Board?
    a. Alan Greenspan;
    b. Ben Bernanke;
    c. George Bush;
    d. none of the above.

Part II – Calculations and Explanations

1. In Madagascar in 2004 the following stats describe the economy:

Consumption = $5,000,000

Investment = $1,000,000

Exports= $750,000

Imports= $ 1,000,000

Tax Rebates= $500,000

Income Tax Reciepts = $3,500,000

New Bombs for a War = $1,500,000

Social Security Payments = $1,275,500

1) What are government purchases?

2) What was 2004 GDP in Madagascar?

3) What method did you use to calculate it?

2. The table below uses data for the year 2003 provided by the BLS and adjusted to be comparable to U.S. data. All values are in thousands. Fill in the blank entries in the table. Show your work!

Country	Adult Population	Labor Force	Employed	Unemployed	Unemployment Rate	Labor-Force Participation Rate
Japan	109,474		62,510	3,500		
France		26,870		2,577		57.41
Germany	70,159	39,591			9.69	

Part III – Essay Questions

1. List Determinants of productivity [Hint: $Y = AF(K, L, H, N)$] and provide three policies to encourage productivity by increasing physical capital per worker (K/L).

2. List at least three reasons for why the unemployment is higher in Canada and in Europe than in the U.S.?

3. Suppose that the economy was originally at long-run equilibrium. Now, the September-11th attach hits the economy, and lowers the investors' confidence. What happens to output, price in the short run? And in the long-run? Use diagram to explain.