

Sample Midterm II

Name _____

Id # _____

Instructions: There are two parts to this midterm. Part A consists of multiple choice questions. Please mark the answers to the multiple choice questions on the exam paper and fill in the relevant bubble on the Scantron sheet. Part A is worth 60%. Part B is worth 40% and consists of short answer questions. Please answer in the space provided. Please attempt both parts and turn the exam in at the end.

Part A: MULTIPLE CHOICE (60%)

Choose the one alternative that best completes the statement or answers the question.

- 1) All of the following household expenditures are included in consumption expenditure EXCEPT
 - A) purchase of hair styling.
 - B) purchase of corporate stock.
 - C) purchase of a new purse.
 - D) payment to a dentist for filling a tooth.

- 2) GDP equals net domestic product plus
 - A) retained earnings.
 - B) depreciation.
 - C) transfer payments and business transfers.
 - D) indirect business taxes and personal taxes.

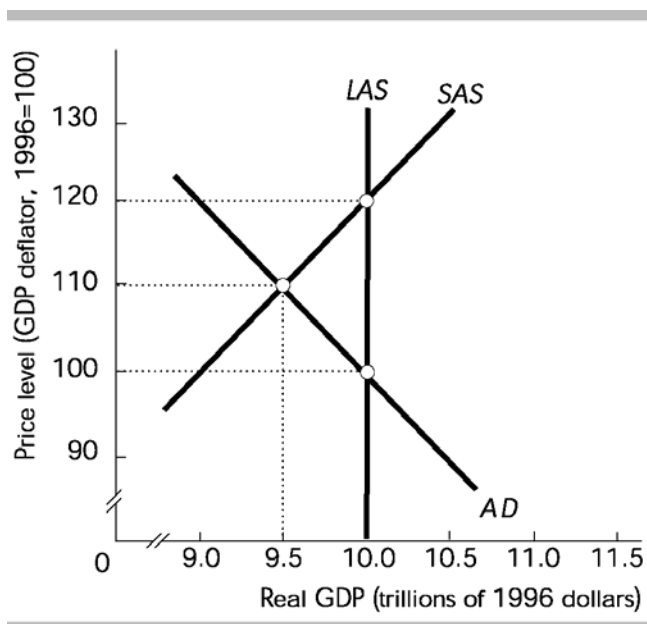
Corporate profits	\$200
Net interest	150
Indirect taxes less subsidies	230
Depreciation	250
Compensation of employees	1,350
Proprietor's income	150
Rental income	70
Personal consumption expenditures	1,400
Government purchases of goods and services	500
Net exports of goods and services	40

- 3) Using the data in the table above, gross domestic product equals
 - A) \$1,940.
 - B) \$2,400.
 - C) \$2,150.
 - D) \$1,920.

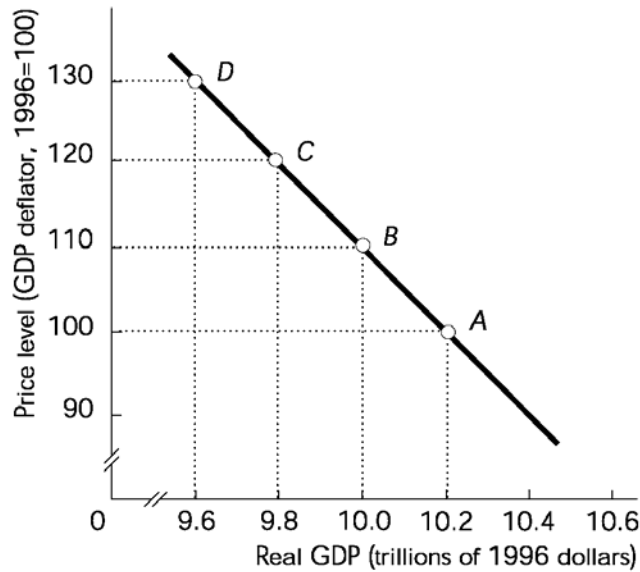
- 4) Gross private domestic investment is a component of which approach to measuring GDP?
 - A) incomes approach
 - B) output approach
 - C) linking approach
 - D) expenditure approach

- 5) If a worker is temporarily laid off because the economy is in a recession,
 - A) cyclical unemployment increases.
 - B) frictional unemployment increases.
 - C) structural unemployment increases.
 - D) the size of the labor force rises.

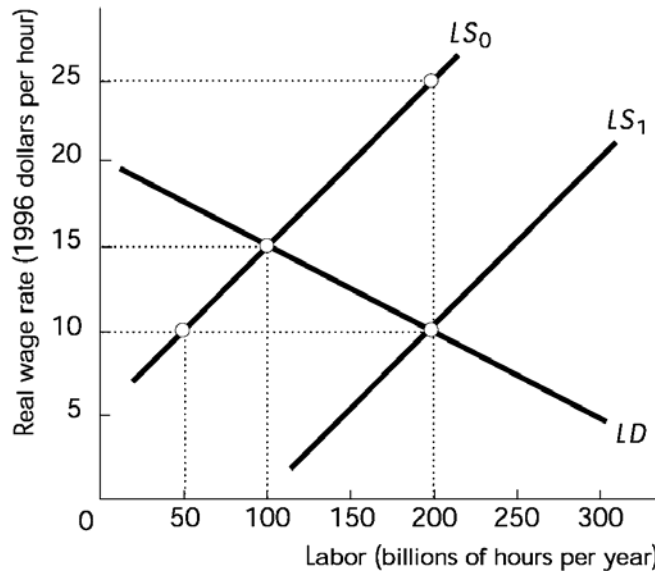
- 6) The duration of time spent by unemployed people looking for jobs
- A) rises during recessions and falls during expansions.
 - B) rises during both recessions and expansions.
 - C) falls during recessions and rises during expansions.
 - D) falls during both recessions and expansions.
- 7) Structural unemployment is
- A) associated with the general decline of specific industries.
 - B) almost always short-term in nature.
 - C) associated with the general downturns in the economy.
 - D) associated with the normal changing of jobs in a dynamic economy.



- 8) The above figure illustrates
- A) an equilibrium at the economy's physical limits.
 - B) a recessionary gap.
 - C) an inflationary gap.
 - D) a full-employment equilibrium.
- 9) The marginal propensity to save (*MPS*) is
- A) total saving divided by total consumption expenditure.
 - B) the increase in saving per dollar increase in disposable income.
 - C) the decrease in saving per dollar increase in consumption expenditure.
 - D) the decrease in saving that is caused by inflation.



- 14) In the above figure, the economy initially is at point B. Then price level rises by 10. The wealth effect will help
- A) move the economy to point D.
 - B) move the economy to point C.
 - C) keep the economy at point B.
 - D) move the economy to point A.



- 15) In the above figure, which of the following might have shifted the labor supply curve from LS_0 to LS_1 ?
- A) an increase in population
 - B) an increase in technology
 - C) a decrease in the wage rate
 - D) an increase in the wage rate
- 16) If $AE = 150 + 0.6Y$ and $Y = 200$, where Y is real GDP, inventories are
- A) falling 70 below their target.
 - B) falling 30 below their target.
 - C) accumulating 75 above their target.
 - D) accumulating 30 above their target.

- 17) Job leavers are people who
- A) are laid off permanently or temporarily.
 - B) enter the labor force for the first time.
 - C) quit a job to look for something better.
 - D) reenter the labor force after many years.

Disposable income (dollars)	Consumption expenditure (dollars)
100	225
200	300
300	375
400	450
500	525
600	600

- 18) Using the above table, if disposable income is \$400, saving is
- A) \$0.
 - B) \$50.
 - C) -\$50.
 - D) \$100.
- 19) If an increase in a household's disposable income from \$10,000 to \$12,000 boosts its consumption expenditure from \$8,000 to \$9,000, the
- A) slope of the consumption function is 1000.
 - B) household is dissaving.
 - C) slope of the consumption function is 0.2.
 - D) slope of the consumption function is 0.5.
- 20) A rise in the expected future inflation rate
- A) decreases the aggregate quantity demanded.
 - B) decreases aggregate demand.
 - C) increases the aggregate quantity demanded.
 - D) increases aggregate demand.

Part B: SHORT ANSWER QUESTIONS (40%)

Write brief answers to the questions below being as succinct and clear as possible. Show any calculations as necessary in answering the questions.

21. (10%)

a. (5%)

Consider the Aggregate Demand – Aggregate Supply model. Starting from an initial long run equilibrium, show the effects of an increase in government expenditure on equilibrium real GDP, using a graph (or otherwise).

b. (5%)

In part (a), what happens to equilibrium real GDP in the short run? What happens to real GDP in the long run? Describe the process as the economy moves from the short run to the long run equilibrium.

22. (15%)

Evaluate the following statement: "If firms set prices, and then keep them fixed for a period of time, their fixed prices imply that the aggregate price level is fixed, and that aggregate demand determines the quantity of goods and services sold". Is the statement true or false? Using a graph (or otherwise), explain the reasoning behind your answer.

23. (15%)

The table below shows the components of aggregate planned expenditure in Pirates Cove. The number's are in billions of coconuts, the currency in the cove.

	Y	C	I	G	X	M
a	100	110	50	60	60	15
b	200	170	50	60	60	30
c	300	230	50	60	60	45
d	400	290	50	60	60	60
e	500	350	50	60	60	75
f	600	410	50	60	60	90

In Pirates cove, what is:

- a. Autonomous Expenditure?
- b. The marginal propensity to consume?
- c. Aggregate planned expenditure when real GDP is 200 billion coconuts?
- d. Happening to inventories if real GDP is 200 billion coconuts?
- e. Happening to inventories, if real GDP is 500 billion coconuts?
- f. The multiplier in Pirates cove?