1. The United States' most important trading partner in terms of dollar volume is:
   A. Mexico.
   B. Canada.
   C. Germany.
   D. China.

2. Which of the following concepts provides the basic rationale for international trade?
   A. increasing opportunity costs.
   B. consumer sovereignty.
   C. comparative advantage.
   D. the law of supply.

   **Alpha's Production Possibilities:**
   
<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel (tons)</td>
<td>60</td>
<td>45</td>
<td>30</td>
<td>15</td>
<td>0</td>
</tr>
<tr>
<td>Wheat (tons)</td>
<td>0</td>
<td>15</td>
<td>30</td>
<td>45</td>
<td>60</td>
</tr>
</tbody>
</table>

   **Omega's Production Possibilities:**
   
<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel (tons)</td>
<td>20</td>
<td>15</td>
<td>10</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Wheat (tons)</td>
<td>0</td>
<td>15</td>
<td>30</td>
<td>45</td>
<td>60</td>
</tr>
</tbody>
</table>

3. Refer to the above data. The domestic opportunity cost of producing 1 ton of steel in Alpha is:
   A. ½ ton of wheat.
   B. 1 ton of wheat.
   C. 15 tons of wheat.
   D. 30 tons of wheat.

4. Refer to the above data. The domestic opportunity cost of producing 1 ton of steel in Omega is:
   A. ½ ton of wheat.
   B. 2 tons of wheat.
   C. 3 tons of wheat.
   D. 5 tons of wheat.

5. Refer to the above data. After specialization, Alpha will produce:
   A. 60 tons of steel and Omega will produce 45 tons of wheat.
   B. 20 tons of steel and Omega will produce 60 tons of wheat.
   C. 60 tons of steel and Omega will produce 60 tons of wheat.
   D. 30 tons of steel and Omega will produce 30 tons of wheat.

6. All else equal, depreciation of the Mexican peso relative to the U.S. dollar would make a trip by:
   A. an American to Mexico more expensive.
   B. a Mexican to the United States less expensive.
   C. an American to Mexico less expensive.
   D. an Australian to the United States more expensive.
7. Refer to the above diagram. The equilibrium dollar price of euros is:

A. $0.625.
B. $1.20.
C. $1.60.
D. $2.00.

8. Proponents of the WTO argue that free international trade and investment will:

A. reduce economic growth rates in the industrial economies.
B. reduce employment in developing nations.
C. eliminate world poverty.
D. increase living standards of all trading nations.

9. Real GDP is preferred to nominal GDP as a measure of economic performance because:

A. nominal GDP uses current prices and thus may over- or understate true changes in output.
B. nominal GDP only includes goods and excludes services.
C. nominal GDP is not adjusted for population changes.
D. real GDP accounts for changes in the quality of goods and services produced.

10. For which of the following goods are services are prices most sticky?

A. Taxi fares
B. Haircuts
C. Coin-operated laundry machines
D. Airlines tickets

11. Which of the following statements best describes price flexibility in the economy?

A. Prices tend to be sticky in the short run and stuck in the long run.
B. Prices tend to be just as sticky in the short run as in the long run.
C. Prices tend to be sticky in the short run, but become more flexible over time.
D. Prices tend to be flexible in the short run, but become more sticky over time.
12. A nation's gross domestic product (GDP):

A. is the dollar value of all final output produced within the borders of the nation.
B. is the dollar value of all final output produced by its citizens, regardless of where they are living.
C. can be found by summing $C + I_n + S + X_n$.
D. is always some amount less than its $C + I_g + G + X_n$.

13. Tom Atoe grows tomatoes for home consumption. This activity is:

A. excluded from GDP in order to avoid double counting.
B. excluded from GDP because an intermediate good is involved.
C. productive but is excluded from GDP because no market transaction occurs.
D. included in GDP because it reflects production.

14. If depreciation (consumption of fixed capital) exceeds domestic investment, we can conclude that:

A. nominal GDP is rising but real GDP is declining.
B. net investment is negative.
C. the economy is importing more than it exports.
D. the economy's production capacity is expanding.

15. Net exports are negative when:

A. a nation's imports exceed its exports.
B. the economy's stock of capital goods is declining.
C. depreciation exceeds domestic investment.
D. a nation's exports exceed its imports.

Answer the next question(s) on the basis of the following data. All figures are in billions of dollars:

<table>
<thead>
<tr>
<th>Government Purchases</th>
<th>$15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption</td>
<td>90</td>
</tr>
<tr>
<td>Gross Investment</td>
<td>20</td>
</tr>
<tr>
<td>Consumption of Fixed Capital</td>
<td>5</td>
</tr>
<tr>
<td>Exports</td>
<td>8</td>
</tr>
<tr>
<td>Imports</td>
<td>12</td>
</tr>
</tbody>
</table>

16. Refer to the above data. GDP is:

A. $116.
B. $121.
C. $125.
D. $150.

17. Which of the following best defines disposable income?

A. income received by households less personal taxes
B. the before-tax income received by households
C. all income earned by resource suppliers for their current contributions to production
D. the market value of the annual output net of consumption of fixed capital
18. Historically, real GDP has increased less rapidly than nominal GDP because:

A. price indices have not reflected improvements in product quality.
B. the general price level has increased.
C. technological progress has resulted in more efficient production.
D. the general price level has declined.

Assume an economy that is producing only one product and that year 3 is the base year. Output and price data for a five-year period are as follows. Answer the next question(s) on the basis of these data.

<table>
<thead>
<tr>
<th>Year</th>
<th>Units of Output</th>
<th>Price Per Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3</td>
<td>$3</td>
</tr>
<tr>
<td>2</td>
<td>4</td>
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</tr>
<tr>
<td>3</td>
<td>6</td>
<td>$5</td>
</tr>
<tr>
<td>4</td>
<td>7</td>
<td>$7</td>
</tr>
<tr>
<td>5</td>
<td>8</td>
<td>$8</td>
</tr>
</tbody>
</table>

19. Refer to the above data. Real GDP for year 5 is:

A. $160.
B. $49.
C. $40.
D. $64.

20. GDP data are criticized as being inaccurate measures of economic welfare because:

A. they do not take into account changes in the amount of leisure.
B. they do not take into account all changes in product quality.
C. they do not take into account the adverse effects of economic activity on the environment.
D. all of these considerations.

21. For a nation's real GDP per capita to rise during a year:

A. consumption spending must increase.
B. real GDP must increase more rapidly than population.
C. population must increase more rapidly than real GDP.
D. investment spending must increase.

22. Between 1950 and 2007, U.S. real GDP grew at an average annual rate of about:

A. 2.3 percent.
B. 3.5 percent.
C. 5.1 percent.
D. 8.6 percent.

Use the list below to answer the following questions:
1. Improvements in technology
2. Increases in the supply (stock) of capital goods
3. Purchases of expanding output
4. Obtaining the optimal combination of goods, each at least-cost production
5. Increases in the quantity and quality of natural resources
6. Increases in the quantity and quality of human resources
23. Which set of items in the above list would shift an economy's production possibilities curve outward?

A. 2, 5, and 6 only
B. 2, 4, 5, and 6 only
C. 1, 2, 5, and 6 only
D. 1, 3, 4 only

24. Recurring upswings and downswings in an economy's real GDP over time are called:

A. recessions.
B. business cycles.
C. output yo-yos.
D. total product oscillations.

25. In which phase of the business cycle will the economy most likely experience rising real output and falling unemployment rates?

A. expansion
B. recession
C. peak
D. trough

26. The United States' economy is considered to be at full employment when:

A. 90 percent of the total population is employed.
B. 90 percent of the labor force is employed.
C. about 4-5 percent of the labor force is unemployed.
D. 100 percent of the labor force is employed.

27. Assume that Kyle is temporarily unemployed because he has voluntarily quit his job with company A and will begin a better job next week with company B. Kyle will be considered as:

A. cyclically unemployed.
B. frictionally unemployed.
C. secularly unemployed.
D. employed.

28. Susie has lost her job in a Vermont textile plant because of import competition. She intends to take a short course in electronics and move to Oregon where she anticipates that a new job will be available. We can say that Susie is faced with:

A. secular unemployment.
B. cyclical unemployment.
C. structural unemployment.
D. frictional unemployment.

Answer the next question(s) on the basis of the following information for a specific year in a hypothetical economy for which Okun's law is applicable:

Potential Real GDP = $200 Billion
Natural Rate of Unemployment = 6 Percent
Actual Rate of Unemployment = 12 Percent
29. Refer to the above data. The size of the negative GDP gap as a percent of potential GDP for the above economy is:

A. 9 percent.
B. 12 percent.
C. 15 percent.
D. 18 percent.

30. The consumer price index was 177.1 in 2001 and 179.9 in 2002. Therefore, the rate of inflation in 2002 was about:

A. 6.7 percent.
B. 3.4 percent.
C. 1.6 percent.
D. 4.1 percent.

31. Dissaving occurs where:

A. income exceeds consumption.
B. saving exceeds consumption.
C. consumption exceeds income.
D. saving exceeds income.

32. John Maynard Keynes created the aggregate expenditures model based primarily on what historical event?

A. Bank panic of 1907
B. Great Depression
C. Spectacular economic growth during World War II
D. Economic expansion of the 1920s

33. The aggregate expenditures model is built upon which of the following assumptions?

A. Prices are sticky downward.
B. The economy is at full employment.
C. Prices are fully flexible.
D. Government spending policy has no ability to affect the level of output.
34. Refer to the above diagram for a private closed economy. The equilibrium level of GDP is:

A. $400.
B. $300.
C. $200.
D. $100.

35. Refer to the above diagram for a private closed economy. At the equilibrium level of GDP, investment and saving are both:

A. $50.
B. $100.
C. $20.
D. $40.

101 ex2 (sp09 3test) Key

1. B
2. C
3. B
4. C
5. C
6. C
7. C
8. D
9. A
10. C
11. C
12. A
13. C
14. B
15. A
16. B
17. A
18. B
19. C
20. D
21. B