

1. In the U.S. economy, all are generally accepted economic functions of government *except*:
 - A) The provision of public goods
 - B) The production and distribution of consumer goods
 - C) Pursuing policies that lessen the effects of the business cycle
 - D) Pursuing policies which promote and enhance competition in the marketplace

2. In terms of dollar volume of exports and imports, the most important trading partner for the United States is:
 - A) Canada
 - B) Mexico
 - C) Japan
 - D) England

3. World trade has been primarily facilitated by:
 - A) Increased military spending
 - B) General declines in tariffs
 - C) Nontariff barriers
 - D) Import quotas

4. Nations specialize and engage in trade to:
 - A) Protect domestic consumers and producers
 - B) Increase output and income
 - C) Improve transportation
 - D) Promote exports

Use the following to answer questions 42-46:

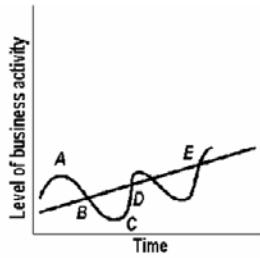
Answer the following question(s) on the basis of the data given for two regions, East and West, of a hypothetical world. The nations have the production possibilities for units of food and clothing given below.

East production possibilities					West production possibilities				
Product	A	B	C	D	Product	A	B	C	D
Food	24	16	8	0	Food	45	30	15	0
Clothing	0	4	8	12	Clothing	0	5	10	15

5. Refer to the above data. Which statement about the two nations is correct based on the principle of comparative advantage?
 - A) East should specialize in the production of food
 - B) West has a comparative advantage in the production of clothing
 - C) West has a comparative advantage in the production of food
 - D) West should specialize in the production of clothing

6. The appreciation of the U.S. dollar relative to the British pound would make a vacation trip to:
- A) The United States less expensive for the British
 - B) London less expensive for Americans
 - C) London more expensive for Americans
 - D) The United States of equal value for the British as a vacation trip to London for Americans
7. GDP is the total market value of:
- A) All expenditures on natural resources, labor, and capital goods in an economy in a given year
 - B) All expenditures on consumption, investment, and net exports in an economy in a given year
 - C) All intermediate goods and services produced in an economy in a given year
 - D) All final goods and services produced in an economy in a given year
8. To avoid multiple counting in national income accounts, only:
- A) Final goods and services should be counted
 - B) Intermediate goods and services should be counted
 - C) Both final and intermediate goods and services should be counted
 - D) Primary, intermediate, and final goods and services should be counted
9. The largest component of GDP is:
- A) Government purchases
 - B) Personal consumption expenditures
 - C) Gross private domestic investment
 - D) Net foreign factor income earned in the United States
10. The value of corporate stocks and bonds traded in a given year is:
- A) Included in the calculation of GDP because they make a contribution to the current production of goods and services
 - B) Excluded from the calculation of GDP because they make no contribution to current production of goods and services
 - C) Included in the calculation of net private domestic investment
 - D) Included in the calculation of gross private domestic investment
11. Which would be considered an investment according to economists?
- A) The purchase of newly-issued shares of stock in Microsoft
 - B) The construction of a new computer chip factory by Intel
 - C) The purchase of shares of stock by Fidelity, a mutual fund company
 - D) The sale of government bonds by the nation's central bank
12. The best measure of economic growth adjusted for the population of a nation is the increase in:
- A) Aggregate demand over time
 - B) Real GDP per worker over time
 - C) Real GDP per capita over time
 - D) Real GDP per dollar of capital stock over time

Use the following to answer questions 28-30:



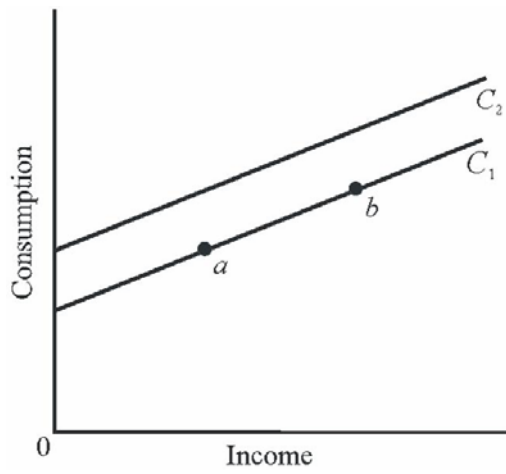
13. The above diagram is best described as an idealized:
- A) Business cycle
 - B) Cyclical variation
 - C) Recession cycle
 - D) Prosperity cycle
14. What has been the range for the duration in months of U.S. recessions since 1950?
- A) 0 months to 5 months
 - B) 6 months to 16 months
 - C) 17 months to 25 months
 - D) 26 months to 30 months
15. The Great Depression of the 1930s resulted in a decline in real GDP of about:
- A) 10 percent
 - B) 20 percent
 - C) 30 percent
 - D) 40 percent
16. Assuming the total population is 200 million, the labor force is 100 million, and 92 million workers are employed, the unemployment rate is:
- A) 4 percent
 - B) 6 percent
 - C) 8 percent
 - D) 10 percent
17. A headline reads: "Steel industry suffers slump as import competition increases; unemployment rises." This type of unemployment can best be characterized in economic terms as:
- A) Frictional
 - B) Structural
 - C) Cyclical
 - D) Natural

18. If the natural rate of unemployment is 4.5 percent and the actual unemployment rate is 6.5 percent, then Okun's law indicates that the GDP gap is:
- A) 2 percent
 - B) 3 percent
 - C) 4 percent
 - D) 6 percent
19. Inflation that occurs when total spending is greater than the economy's ability to produce output at the existing price level is:
- A) Anticipated inflation
 - B) Demand-pull inflation
 - C) Cost-push inflation
 - D) Unanticipated inflation
20. Assume that there is a fixed rate of interest on contracts for borrowers and lenders. If unanticipated inflation occurs in the economy, then:
- A) Both lenders and borrowers benefit
 - B) Both lenders and borrowers are hurt
 - C) Borrowers are hurt, but lenders benefit
 - D) Lenders are hurt, but borrowers benefit
21. The primary determinant of the level of consumption and saving in the economy is the:
- A) Level of investment
 - B) Level of income
 - C) Level of prices
 - D) Interest rate
22. An increase in the real interest rate will:
- A) Shift the investment demand curve to the right
 - B) Shift the investment demand curve to the left
 - C) Shift the consumption schedule upward
 - D) Decrease the amount of investment spending
23. The magnification of small changes in spending into larger changes in output and income is produced by:
- A) The average propensity to consume
 - B) The average propensity to save
 - C) The multiplier effect
 - D) Saving
24. Between 1950 and 2002, U.S. real GDP grew at an average annual rate of about:
- A) 1.3 percent.
 - B) 3.4 percent.
 - C) 5.1 percent.
 - D) 8.6 percent.

Answer the next question(s) on the basis of the following information about the hypothetical economy of Scoob. All figures are in millions.

Not in the labor force	45
Unemployed	7
Total population	145
Employed	95
Discouraged workers	3

25. Refer to the above information. The unemployment rate in Scoob is:
- A) 2.5 percent.
 - B) 3.2 percent.
 - C) 5.0 percent.
 - D) 6.9 percent.
26. When the U.S. economy has achieved full employment, the unemployment rate is between:
- A) 5 and 6 percent.
 - B) 4 and 5 percent.
 - C) 3 and 4 percent.
 - D) 2 and 3 percent.
27. If actual GDP is less than potential GDP:
- A) potential GDP will fall.
 - B) the price level will rise.
 - C) investment spending will fall.
 - D) the actual unemployment rate will be higher than the natural unemployment rate.
28. 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.
29. Suppose the *nominal* annual interest rate on a two year loan is 8 percent and lenders expect inflation to be 5 percent in each of the two years. The annual *real* rate of interest is:
- A) 6 percent.
 - B) 8 percent.
 - C) 2 percent.
 - D) 3 percent.



30. Refer to the above graph. A shift of the consumption schedule from C_1 to C_2 might be caused by a:
- A) recession.
 - B) wealth effect of an increase in stock market prices.
 - C) increase in income tax rates.
 - D) increase in saving.

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1. B
2. A
3. B
4. B
5. C
6. B
7. D
8. A
9. B
10. B
11. B
12. C
13. A
14. B
15. D
16. C
17. B
18. C
19. B
20. D
21. B
22. D
23. C
24. B
25. D
26. B
27. D
28. C
29. D
30. B