

**\*\* Review \*\***  
**For Test - 3**

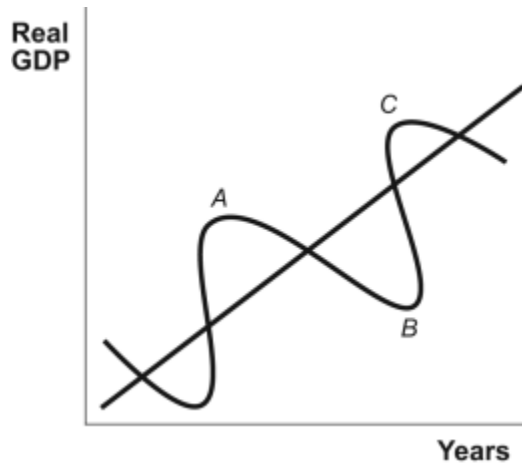
1. Gross domestic product or GDP is:
  - A) the total dollar value intermediate goods and services produced in the economy in a given time period.
  - B) the total dollar value of wages paid to producing workers in a given time period.
  - C) the total dollar value of final goods and services produced in the economy in a given time period.
  - D) the total dollar value of government production in a given time period.
  
2. In long-run equilibrium in a perfectly competitive market, all firms will be operating at the same level of marginal cost.
  - A) True
  - B) False
  
3. Shoe-leather costs refer to the:
  - A) effect of inflation on the prices of food, clothes, and other necessities.
  - B) increased cost of transactions due to inflation.
  - C) high price of leather goods.
  - D) effect of inflation on transportation costs.
  
4. Labor unions that are effective at achieving wage rates:
  - A) lower than the equilibrium wage rate may unintentionally cause frictional unemployment.
  - B) equal to the equilibrium wage rate may cause shortages in that labor market.
  - C) higher than the equilibrium wage rate may also cause structural unemployment.
  - D) higher than the equilibrium wage rate may cause shortages in that labor market.
  
5. Monetary policy attempts to affect the overall level of spending in the economy through:
  - A) changes in the inflation rate.
  - B) changes in the quantity of money or the interest rate.
  - C) changes in tax policy or government spending.
  - D) discretionary regulation of profits and wages.

6. One characteristic of a perfectly competitive market is that there are \_\_\_\_\_ sellers of the good or service.
- A) one or two
  - B) a few
  - C) usually less than 10
  - D) hundreds or thousands of
7. Real per capita GDP is:
- A) real GDP divided by the population.
  - B) real GDP divided by the amount of capital available in the economy.
  - C) not a good useful measure of human welfare.
  - D) rarely used as a tool to compare countries' possible resources.
8. Menu costs are:
- A) the costs of money becoming less reliable.
  - B) the real costs of changing listed prices.
  - C) the increase in the transaction costs caused by inflation.
  - D) adjustments to cost of living.
9. Microsoft's Windows operating system is a standardized product, since everyone who buys a particular version of the product gets exactly the same thing. This means that Microsoft is a perfectly competitive firm.
- A) True
  - B) False
10. The assumptions of perfect competition imply that:
- A) individuals in the market accept the market price as given.
  - B) individuals can influence the market price.
  - C) the price will be a fair price.
  - D) the price will be low.
11. If a country has a working-age population of 200 million, 135 million people with jobs, and 15 million people unemployed and seeking employment, then its labor force is:
- A) 335 million.
  - B) 200 million.
  - C) 155 million.
  - D) 150 million.

12. A process that brings the inflation rate down is called:
- A) disinflation.
  - B) deflation.
  - C) stagflation.
  - D) hyperinflation.
13. Low unemployment rates are often:
- A) associated with recessions.
  - B) indicative of the ease of finding a job.
  - C) an indicator of the difficulty of finding a job.
  - D) the result of high cyclical unemployment rates.
14. Controlling interest rates is an example of:
- A) fiscal policy.
  - B) tax policy.
  - C) monetary policy.
  - D) exchange rate policy.
15. Which one of the following is correct?
- A)  $\text{Unemployment Rate} = \frac{\text{Unemployed}}{\text{Employed}} \times 100$
  - B)  $\text{Unemployment Rate} = \frac{\text{Unemployed}}{\text{Population}} \times 100$
  - C)  $\text{Unemployment Rate} = \frac{\text{Employed}}{\text{Labor Force}} \times 100$
  - D)  $\text{Unemployment Rate} = \frac{\text{Unemployed}}{\text{Labor Force}} \times 100$
16. The inflation rate is:
- A) the change in a price index divided by the initial value of the index.
  - B) the change in a price index divided by the new index number.
  - C) the difference between the initial price index number and the new price index number.
  - D) computed by dividing the old price index number by the new price index number.

Use the following to answer question 17:

**Figure: The Business Cycle**



17. (Figure: The Business Cycle) Point *B* on this graph shows
- A) a peak.
  - B) a trough.
  - C) an expansion.
  - D) a recession.

Use the following to answer question 18:

**Scenario: Real GDP**

Suppose that in Year 1 an economy produces 100 golf balls that sell for \$3 each and 75 pizzas that sell for \$8 each. The next year the economy produces 110 golf balls that sell for \$3.25 each and 80 pizzas that sell for \$9 each.

18. (Scenario: Real GDP) Using Year 1 as the base year, real GDP in Year 2 is:
- A) \$900.
  - B) \$970.
  - C) \$1,000.
  - D) \$1,077.50.
19. The natural rate of unemployment is:
- A) the rate of unemployment that exists during recessions.
  - B) equal to the sum of frictional and cyclical unemployment.
  - C) equal to the sum of frictional and structural unemployment.
  - D) cyclical unemployment less frictional unemployment.

20. A business cycle is:
- A) a very deep and prolonged economic downturn.
  - B) a period in which output and employment are rising.
  - C) a period in which output and employment are falling.
  - D) a short-run alternation between economic upturns and downturns.

Use the following to answer question 21:

**Table: GDP**

	2007	2008
Nominal GDP	400	500
Real GDP	360	480

21. (Table: GDP) Using the information in the table provided, calculate the GDP deflator for 2007.
- A) 111
  - B) 104
  - C) 90
  - D) 96
22. The labor force is:
- A) the total of people employed.
  - B) the total population.
  - C) the total of the population of working age.
  - D) the total of people employed and unemployed.
23. Consider the following data for a perfectly competitive firm: price is \$9, output is 30 units, and average total cost is \$7. The firm's profits are equal to:
- A) \$60.
  - B) \$270.
  - C) \$2.
  - D) \$210.
24. Periods in which output and employment are falling are known as:
- A) recessions.
  - B) booms.
  - C) expansions.
  - D) deflations.

25. Economic profits in a perfectly competitive industry induce \_\_\_\_\_, and losses induce \_\_\_\_\_.
- A) exit; entry
  - B) entry; entry
  - C) entry; exit
  - D) exit; exit

Use the following to answer question 26:

**Table: Peanut Butter and Jelly Economy**

Product	2008 Output	2008 Prices (base year)	Product	2009 Output	2009 Prices
Peanut Butter	200 units	\$1 per unit	Peanut Butter	250	\$1.10 per unit
Jelly	100 units	\$2 per unit	Jelly	100	\$2.50 per unit

26. (Table: Peanut Butter and Jelly Economy) A simple economy produces only peanut butter and jelly. Using the data in the attached table, nominal GDP in 2009 was \_\_\_\_\_ and real GDP in 2009 was \_\_\_\_\_.
- A) \$450; \$400
  - B) \$525; \$450
  - C) \$525; \$400
  - D) \$450; \$575
27. Macroeconomics involves the study of the:
- A) overall behavior of the economy.
  - B) individual decision makers in the economy.
  - C) different market structures that exist in the economy.
  - D) cost and production decisions made by firms.
28. For a perfectly competitive firm in the short run:
- A) if the firm produces a quantity at which  $P > ATC$ , then the firm is profitable.
  - B) if the firm produces a quantity at which  $P < ATC$ , then the firm breaks even.
  - C) if the firm produces a quantity at which  $P = ATC$ , then the firm incurs a loss.
  - D) if the firm produces a quantity at which  $P < ATC$ , then the firm is profitable.

29. Structural unemployment is:
- A) unemployment that results when there are more people seeking jobs than there are jobs available at the current wage rate.
  - B) unemployment experienced by those entering the labor force for the first time.
  - C) zero when the economy is in full employment.
  - D) caused by short-run economic fluctuations.
30. Changing the level of government spending is an example of:
- A) fiscal policy.
  - B) interest rate policy.
  - C) monetary policy.
  - D) exchange rate policy.

## Answer Key

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