

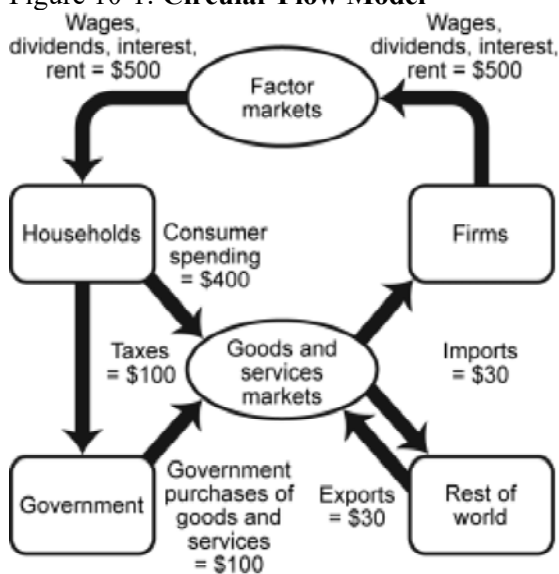
Unit 2 Practice Test

Multiple Choice

Identify the choice that best completes the statement or answers the question.

- _____ 1. The circular-flow diagram illustrates how households _____ goods and services and _____ factors of production.
- buy; sell
 - buy; buy
 - own; buy
 - own; sell
 - sell; buy

Figure 10-1: **Circular Flow Model**



- _____ 2. Use the “**Circular Flow Model**” **Figure 10-1**. If the circular flow model is in equilibrium (the sum of money flows into each box is equal to the sum of the money flows out of that box), which of the following is likely to happen if there is an increase in exports?
- an increase in the nominal GDP
 - a decrease in the real GDP
 - an increase in the unemployment rate
 - a decrease in the inflation rate
 - an increase in imports
- _____ 3. Investment spending represents spending on:
- raw materials.
 - stocks.
 - mutual funds.
 - corporate bonds.
 - productive physical capital.

- _____ 4. An example of investment spending would be:
- purchase of a bond.
 - purchase of a loaf of bread.
 - purchase of a new productive machine.
 - purchase of a rival company.
 - purchase of stock in a foreign company.
- _____ 5. Gross domestic product or GDP is:
- the total dollar value of intermediate goods and services produced in the economy in a given time period.
 - the total dollar value of wages paid to producing workers in a given time period.
 - the total dollar value of household income earned in a given time period.
 - the total dollar value of government production in a given time period.
 - the total dollar value of final goods and services produced in the economy in a given time period.
- _____ 6. An intermediate good would be:
- a new boat purchased by a professor to be used on vacation.
 - lumber used in building a house.
 - government purchases of military equipment.
 - a professor's salary.
 - the natural gas used to heat the professor's home.

Personal consumption expenditures	\$500
Gross private domestic investment	200
Net exports	-5
State and local government purchases of goods and services	200
Federal government purchases of goods and services	100
Imports	15
Table 10-4: Measuring GDP (billions of dollars)	

- _____ 7. Use **Table 10-4**. Total domestic expenditures on GDP by the household sector are:
- \$515 billion.
 - \$150 billion.
 - \$200 billion.
 - \$500 billion.
 - \$495 billion.
- _____ 8. Suppose only two countries existed in the world. Country A imported \$200 million worth of goods and services from Country B. Country B imported \$100 million worth of goods and services from Country A. This means that net exports for:
- Country A equals \$200 million.
 - Country B equals \$200 million.
 - Country A equals -\$100 million.
 - Country B equals -\$100 million.
 - Country A equals \$100 million.

- _____ 9. Which of the following accurately describes part of the circular flow diagram?
- Households purchase goods and services from financial markets in exchange for wages, interest, rent and profit.
 - Government borrows from financial markets while households save in factor markets.
 - Firms sell goods and services in exchange for wages, interest, rent and profit.
 - Exports represent a flow of money out of the economy and imports represent a flow of money into the economy.
 - Firms purchase factors of production from households in exchange for wages, interest, rent and profit.

Year	Output	Price per Unit
1	2	\$2
2	3	4
3 = base period	4	5
4	6	6
5	7	9

Table 11-2: Price and Output Data

- _____ 10. Use **Table 11-2**. The value of Year 3's output in real dollars is:
- \$5.
 - \$20.
 - \$27.
 - \$36.
 - \$9.

The town of York produces two goods, Good A and Good B. The following is information regarding York's production of these two goods and their prices for three consecutive years.

	Year 2006	Year 2007	Year 2008
Quantity of Good A	3	4	5
Price of Goods A	\$500	\$550	\$550
Quantity of Good B	10	10	10
Price of Good B	\$2	\$4	\$5

Scenario 11-1: Good A and Good B

- _____ 11. Use **Scenario 11-1**. Using 2006 as the base year, then one would find that the real GDP in 2006:
- is equal to the real GDP in 2007.
 - is equal to the nominal GDP in 2006.
 - is greater than the real GDP in 2007.
 - is greater than the real GDP in 2008.
 - is the same as real GDP in 2007.
- _____ 12. The unemployment rate is defined as:
- the percentage of the labor force that is unemployed.
 - the number of people unemployed.
 - the ratio of the labor force to the number of people unemployed.
 - the average length of time someone is unemployed.
 - the percentage of the population that is unemployed.

- _____ 13. The labor force is equal to the:
- sum of the employed and the unemployed.
 - population minus the number of employed.
 - sum of the employed and the underemployed.
 - number of people working in the economy.
 - number of people in the economy above the age of 16.
- _____ 14. The percentage of the labor force that is unemployed is the:
- labor force.
 - employment ratio.
 - unemployment rate.
 - natural employment rate.
 - labor force participate rate.

Demographic Group	Number of Residents
Employed	5000
Unemployed and looking for work	1000
Not working due to disability	200
Not working due to retirement	700
Unemployed and not looking for work due to discouragement over job prospects	500
Under the age of 16	2400
Total Population	9800

Table 12-3: Population Data for Madtucky

- _____ 15. Use **Table 12-3**. How many people are in the labor force?
- 6900
 - 9800
 - 7400
 - 6500
 - 6000
- _____ 16. Discouraged workers are those individuals:
- who are getting paid too little.
 - who do not like their jobs.
 - who are working part time but are looking for a full-time job.
 - who have given up looking for work because they feel their job prospects are very poor.
 - who are employed but extremely dissatisfied with their jobs.
- _____ 17. Max, a 19-year old college student, wants a part-time job. However, Max is concerned that a job would interfere with his coursework, so he's not currently looking for employment. The Bureau of Labor Statistics would consider Max to be:
- out of the labor force.
 - unemployed.
 - a part-time worker.
 - a marginally attached worker.
 - a discouraged worker.

- _____ 18. An example of frictional unemployment is a(n):
- autoworker who is temporarily laid off from an automobile company due to a decline in sales.
 - geologist who is permanently laid off from an oil company due to a new technological advance.
 - worker at a fast-food restaurant who quits work and attends college full time.
 - real estate agent who leaves a job in Texas and searches for a similar, higher paying job in California.
 - autoworker who is not working because he is currently on strike from his job at the production factory.
- _____ 19. An example of structural unemployment is a(n):
- autoworker who is temporarily laid off from an automobile company due to a decline in sales.
 - lifeguard who loses his job at the beach at the end of each summer.
 - worker at a fast-food restaurant who quits work and attends college.
 - real estate agent who leaves a job in Texas and searches for a similar, higher paying job in California.
 - geologist who is permanently laid off from an oil company due to an increase in wages won by labor unions.
- _____ 20. If a worker becomes unemployed due to an increase in the minimum wage, that worker is:
- frictionally unemployed.
 - structurally unemployed.
 - cyclically unemployed.
 - engaged in job search.
 - minimally unemployed.
- _____ 21. If the actual unemployment rate is 7% and the natural rate of unemployment is 5%, then the cyclical unemployment rate is:
- 2%.
 - 5%.
 - 7%.
 - 9%.
 - 12%
- _____ 22. When the demand for labor is falling and employers have committed to high wages, _____ unemployment will result.
- frictional
 - cyclical
 - permanent
 - structural
 - natural
- _____ 23. The natural rate of unemployment is:
- the rate of unemployment that exists during recessions.
 - equal to the sum of frictional and cyclical unemployment.
 - equal to the sum of frictional and structural unemployment.
 - cyclical unemployment less frictional unemployment.
 - equal to the actual rate of unemployment less frictional unemployment.

- _____ 24. Shoe-leather costs refer to the:
- effect of inflation on the prices of food, clothes, and other necessities.
 - increased cost of transactions due to inflation.
 - high price of leather goods.
 - effect of inflation on transportation costs.
 - effect of inflation on clothing.
- _____ 25. Unit-of-account costs of inflation are the:
- costs associated with money being a less reliable unit of measurement.
 - costs of transactions associated with avoiding the inflation tax.
 - costs associated with businesses changing prices.
 - revenue the government gets from printing money.
 - costs associated with searching for lower prices.
- _____ 26. Which of the following represents the best scenario for a bank lending its money to a customer?
- fixed interest rate of 8% with 1% inflation
 - fixed interest rate of 11% with 5% inflation
 - fixed interest rate of 12% with 7% inflation
 - fixed interest rate of 19% with 15% inflation
 - fixed interest rate of 10% with 7% inflation
- _____ 27. The threat of future inflation:
- makes people reluctant to lend money for long periods.
 - makes people eager to lend money for long periods.
 - has no effect on lending money.
 - increases the value of money paid back in the future.
 - makes people reluctant to borrow money for long periods.
- _____ 28. You have gone to the bank to borrow money for one year. The nominal rate is 7.5%. The real rate of interest is 4%. Over the course of the year, overall prices increased by 4%. This rate of inflation hurt _____ because the actual rate of inflation was _____ than the anticipated rate of inflation.
- the borrower; lower
 - the borrower; higher
 - the lender; higher
 - the lender; lower
 - neither the borrower nor the lender; equal to
- _____ 29. If the consumer price index changes from 120 to 125 between December 2007 and December 2008, the:
- inflation rate for 2008 is 4.2%.
 - inflation rate for 2008 is 5%.
 - deflation rate for 2008 is 5%.
 - deflation rate for 2008 is -4.2%.
 - inflation rate for 2008 is 10%.

Name: _____

ID: A

Year	CPI
2007	125
2008	120

**Table 15-3: CPI
II**

- _____ 30. Use **Table 15-3**. Calculate by how much the prices changed between 2007 and 2008.
- a. Prices decreased by 5%.
 - b. Prices decreased by 4%.
 - c. Prices increased by 4%.
 - d. Prices increased by 5%.
 - e. Prices decreased by 20%.