

IVY TECH STATE COLLEGE
REGION 14-BLOOMINGTON
ECN 101 ECONOMICS FUNDAMENTALS
Fall 2006
Final Examination

Name _____

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

- 1) Based on the analysis of the sources of growth in Singapore and Hong Kong, and assuming that nothing changes, it can be concluded that: 1) _____
A) there is convergence between the nations in Asia.
B) they are both good examples of the effect of technological progress on growth.
C) Singapore's long term growth prospects are not strong.
D) Hong Kong's experience has been an aberration.
E) none of the above
- 2) The method used to identify the contribution of economic growth from increased capital, labor, and technological progress is known as: 2) _____
A) capital deepening.
B) growth accounting.
C) technology accounting.
D) capital accounting.
E) generational accounting.
- 3) According to the method of growth accounting, which of the following contribute to economic growth? 3) _____
A) labor growth
B) technological progress
C) capital growth
D) all of the above
E) none of the above
- 4) If the GDP per capita growth rate in Mexico is 6%, standards of living double every: 4) _____
A) 6 years.
B) 11.67 years.
C) 1 year.
D) 1.17 years.
E) 7 years.
- 5) Which of the following creates difficulties in making comparisons of real GDP across nations? 5) _____
A) Nations produce different goods and services.
B) Nations have different amount of natural resources.
C) Each nation has a different population.
D) Each nation has its own system for measuring prices.
E) all of the above

- 6) Which of the following is not an example of technological progress? 6) _____
- A) architects designing houses that require less wood
 - B) invention of faster computer chips
 - C) the invention of the automatic dishwasher
 - D) developing a method to produce bottles using less glass
 - E) an increase in agricultural goods resulting from a favorable weather
- 7) Increases in the stock of capital will lead to: 7) _____
- A) decreases in wages and increases in GDP.
 - B) increases in wages and GDP.
 - C) increases in wages and decreases in GDP.
 - D) decreases in wages and total GDP.
 - E) The capital stock has no effect on wages or GDP.
- 8) Which of the following uses of tax revenues collected by the government leads to increased capital deepening? 8) _____
- A) subsidizing airport construction in Seattle
 - B) providing additional support for education
 - C) construction of a new dam
 - D) building interstate highway
 - E) all of the above
- 9) The difference between gross investment and net investment equals: 9) _____
- A) inventory investment.
 - B) zero.
 - C) depreciation.
 - D) aggregate income.
 - E) none of the above
- 10) An event that allows the economy to operate more efficiently by producing more outputs without using any more inputs is referred to as: 10) _____
- A) technological progress.
 - B) absolute progress.
 - C) comparative advantage.
 - D) efficiency progress.
 - E) capital investment.
- 11) An increase in a country's capital stock relative to its work force is known as: 11) _____
- A) capital augmentation.
 - B) capital depletion.
 - C) capital growth.
 - D) capital deepening.
 - E) capital improvement.
- 12) The driving force of economic growth has been _____ in Hong Kong and _____ in Singapore. 12) _____
- A) increases in capital and labor, technological progress
 - B) increases in capital and labor, increases in capital and labor
 - C) technological progress, increases in capital and labor
 - D) technological progress, technological progress
 - E) none of the above

- 13) Convergence refers to closing the gap in _____ between poorer countries and richer countries. 13) _____
- A) real GDP per capita
 - B) the growth rate in real GDP per capita
 - C) the growth rate in real GDP
 - D) the growth rate in GDP
 - E) real GDP
- 14) Nations who borrow from abroad to support current consumption: 14) _____
- A) will always sacrifice current consumption.
 - B) will always be better off in the future.
 - C) will always sacrifice future consumption.
 - D) may sacrifice future consumption.
 - E) none of the above
- 15) A comparison of the average growth rates across time for developed nations indicates that: 15) _____
- A) nations with lower levels of income will never be as rich as nations with high levels of income.
 - B) nations with lower levels of income grow more quickly than those with higher levels of income.
 - C) nations with lower levels of income grow more slowly than those with higher levels of income.
 - D) the rate is the same for high and low income nations.
 - E) nations with high levels of income experience a continuously increasing growth rate.
- 16) Suppose that for a given firm the increase in output resulting from the last worker hired is less than the increase in output of the previous worker hired. This is an example of: 16) _____
- A) diminishing returns.
 - B) technological increases.
 - C) increasing return.
 - D) capital deepening.
 - E) constant returns.
- 17) Suppose the growth rate of GDP in the U.S. is 5.2%. If 3.0% and 2.2% of GDP growth are due, respectively, to capital and labor growth, the amount resulting from technological progress is: 17) _____
- A) 3.0%.
 - B) 0%.
 - C) 1.2%.
 - D) 2.2%.
 - E) Cannot be determined from the information given.
- 18) Technological progress refers to: 18) _____
- A) the only mechanism that affects economic growth.
 - B) only major scientific breakthroughs.
 - C) the birth of new ideas.
 - D) all of the above
 - E) none of the above

- 19) Nations who borrow from abroad to support current investment will: 19) _____
A) be better off in the future if the investments are profitable.
B) always sacrifice future consumption.
C) always be better off in the future.
D) sacrifice future consumption only if the investments are profitable.
E) none of the above
- 20) Suppose the growth rate of GDP in the U.S. is 2.6%. If 1.0% and 0.7% of GDP growth are due, 20) _____
respectively, to capital and labor growth, the amount resulting from technological progress is:
A) 0.9%.
B) 1.9%.
C) 1.7%.
D) 1.6%.
E) Cannot be determined from the information given.
- 21) If a nation with a low level of GDP per capita converges to a richer nation, the poor nation: 21) _____
A) experiences low growth rates.
B) enters into a free trade agreement with the richer nation.
C) experiences a rate of low growth such that its GDP per capita increases relative to that of the richer nation.
D) experiences a rate of high growth such that its GDP per capita increases relative to that of the richer nation.
E) none of the above
- 22) In a simple economy (without government or foreign trade) where output can be purchased only 22) _____
by consumers or by firms, saving must equal:
A) depreciation.
B) net investment.
C) income.
D) Y .
E) investment.
- 23) Which of the following is an example of a trade-off a nation might face in order to promote 23) _____
technological progress?
A) Monopolies generate deadweight loss but encourage innovation.
B) Defense spending is increased, resulting in less money for social welfare programs.
C) The creation of a national park results in the loss of timber-related jobs.
D) Educational spending is reduced to finance higher salaries of members of Congress.
E) all of the above
- 24) The returns to education are: 24) _____
A) highest in developing nations.
B) lowest in developing nations.
C) the same in developing and developed nations.
D) highest in developed nations.
E) never reflected in the wages of workers.

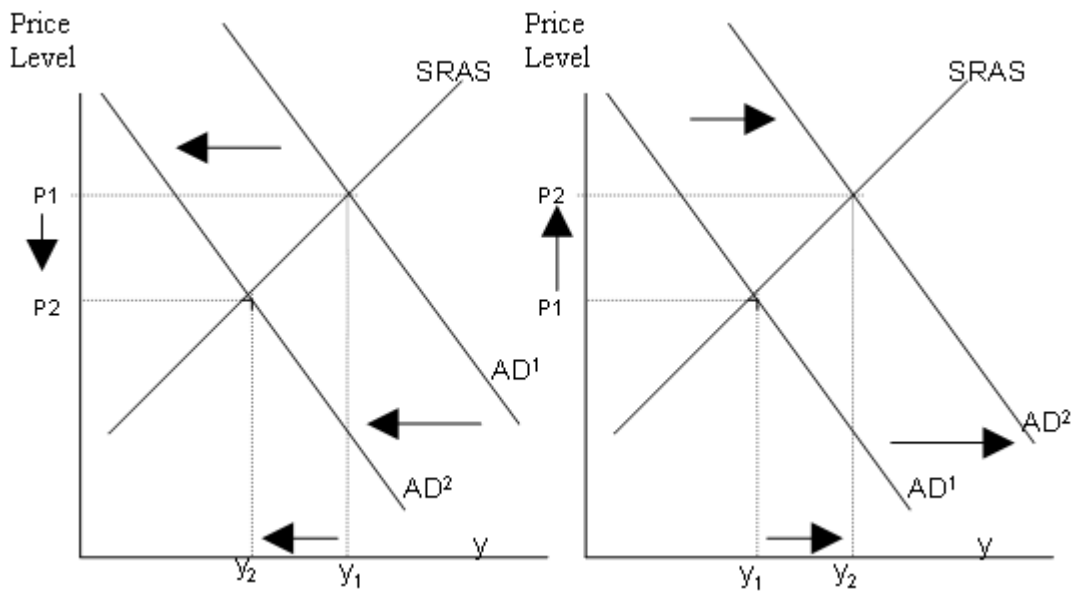
- 25) The short-run aggregate supply curve is:
- A) a horizontal line at the current price level.
 - B) downward sloping.
 - C) a horizontal line at potential output.
 - D) slightly upward sloping.
 - E) a vertical line at potential output.

25) _____

- 26) Workers whose wages tend to adjust slowly include all of the following except:
- A) those with long-term contracts.
 - B) unskilled, low wage workers.
 - C) movie stars, professional athletes, and rock stars.
 - D) union workers.
 - E) high-school teachers.

26) _____

Use the figure below to answer the following questions.



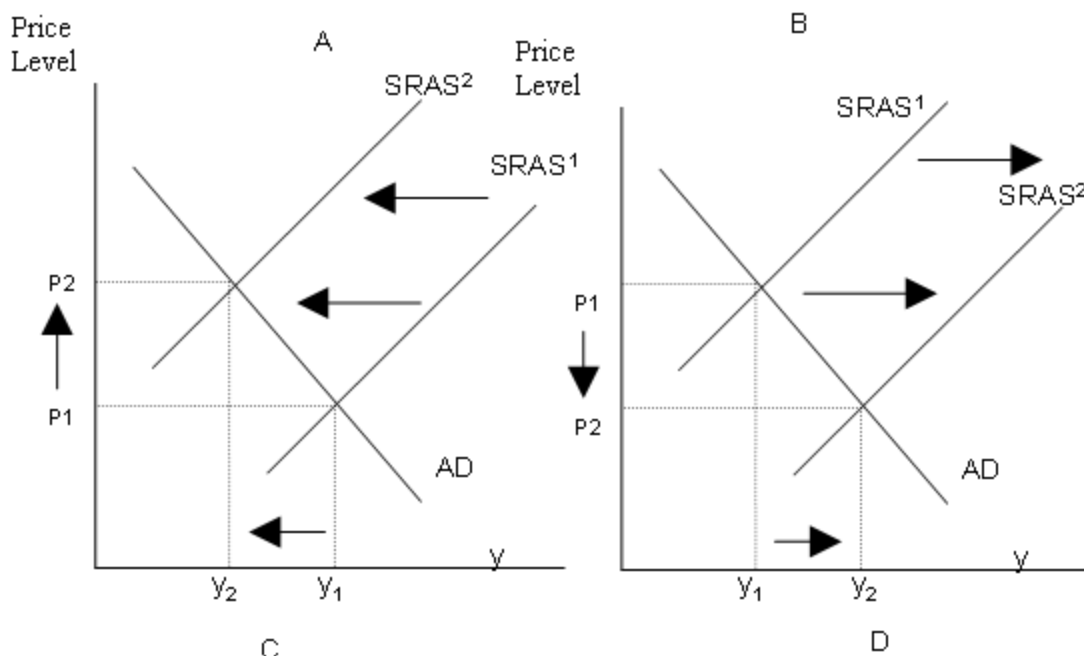
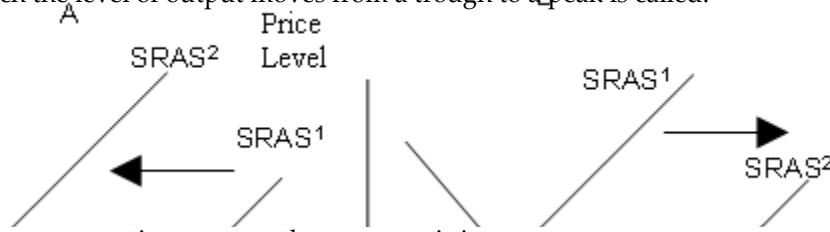


Figure 13.1

- 27) Which of the graphs in Figure 13.1 correctly depicts the effects of a decrease in government spending? 27) _____
 A) Graph A B) Graph B C) Graph C D) Graph D
- 28) Assuming a short-run aggregate supply curve, a massive crop failure results in _____ in output and _____ in prices. 28) _____
 A) an increase, an increase
 B) an increase, no change
 C) an increase, a decrease
 D) a decrease, no change
 E) a decrease, an increase
- 29) In which market would the price be least likely to be "sticky"? 29) _____
 A) trucks
 B) fresh fruit
 C) wages of union teachers
 D) steel rods
 E) wages of government workers
- 30) Assuming a long-run aggregate supply curve, a decrease in the money supply results in _____ in output and _____ in prices. 30) _____
 A) a decrease, no change
 B) no change, a decrease
 C) an increase, no change
 D) no change, an increase
 E) a decrease, a decrease

31) The period of time in which the level of output moves from a trough to a peak is called: 31) _____

- A) a peak.
- B) an expansion.
- C) a depression.
- D) a contraction.
- E) plateau.



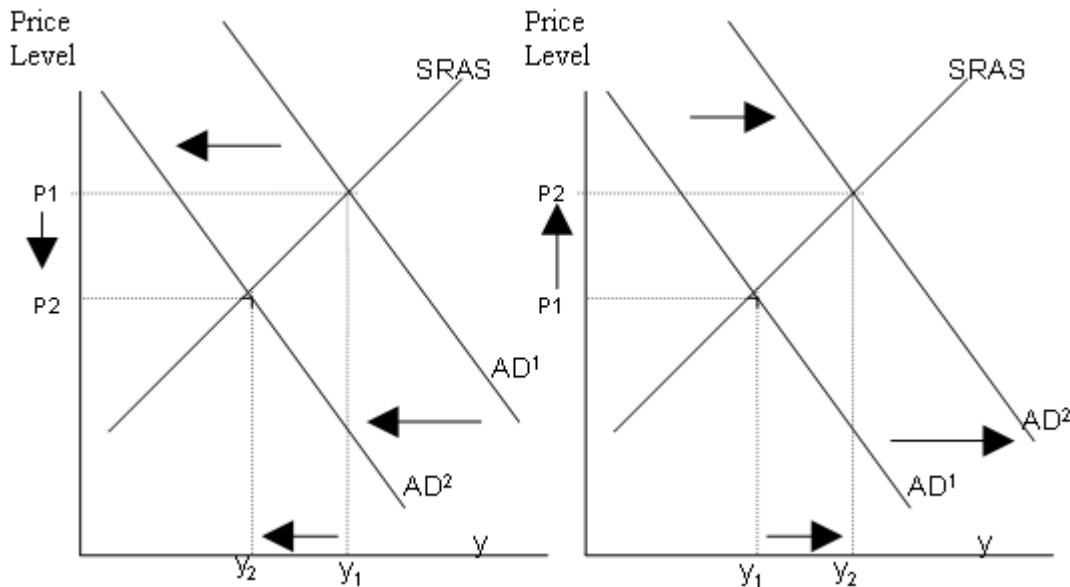
32) When real GDP falls for two consecutive quarters the economy is in a: 32) _____

- A) boom.
- B) recession.
- C) depression.
- D) trough.
- E) peak.

33) Assuming a short-run aggregate supply curve, an increase in the price of oil results in _____ in output and _____ in prices. 33) _____

- A) an increase, an increase
- B) a decrease, an increase
- C) an increase, no change
- D) an increase, a decrease
- E) a decrease, no change

Use the figure below to answer the following questions.



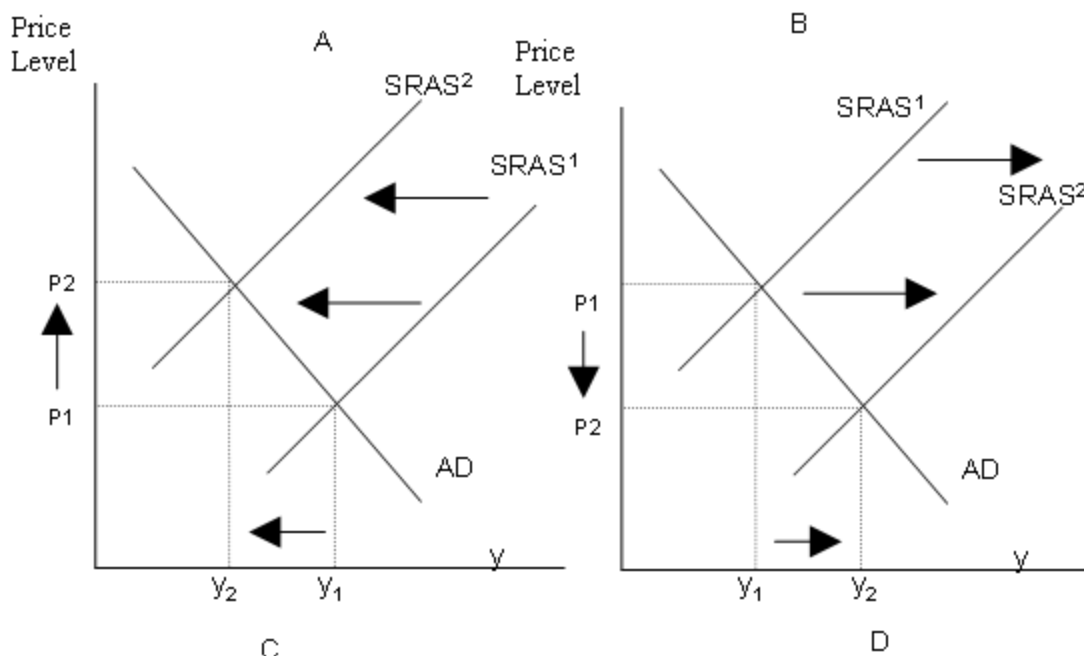


Figure 13.1

- 34) Which of the graphs in Figure 13.1 correctly depicts the effects of an increase in other countries' demand for our exports? 34) _____
 A) Graph A B) Graph B C) Graph C D) Graph D
- 35) Suppose that the trend rate of growth in GDP is 4% and the unemployment rate is 5%. If real GDP grows by 2% the unemployment rate will: 35) _____
 A) decrease to 4%.
 B) decrease to 4.5%.
 C) increase to 6%.
 D) increase to 5.5%.
 E) Cannot be determined from the information provided.
- 36) Assuming a long-run aggregate supply curve, an increase in government spending results in _____ in output and _____ in prices. 36) _____
 A) a decrease, no change
 B) no change, an increase
 C) a decrease, a decrease
 D) an increase, no change
 E) no change, a decrease
- 37) Crowding out refers to: 37) _____
 A) decreases in consumption, investment, or net exports caused by an increase in government purchases.
 B) increases in consumption, investment, or net exports caused by an increase in government purchases.
 C) reductions in tax revenues associated with increases in tax rates.
 D) increases in tax revenues associated with increases in tax rates.
 E) none of the above

38) If prices are sticky, a decrease in the demand for baseballs will result in: B 38) _____

- A) an increase in the quantity demanded, no change in the quantity supplied, and an increase in the price of baseballs.
- B) a decrease in the quantity demanded, an increase in the quantity supplied, and an increase in the price of baseballs.
- C) a decrease in the quantity demanded, no change in the quantity supplied, and no change in the price of baseballs.
- D) an increase in the quantity demanded, no change in the quantity supplied, and no change in the price of baseballs.
- E) an increase in the quantity demanded, an increase in the quantity supplied, and no change in the price of baseballs.

39) Which of the following curves reflects the idea that in the short run, prices are sticky and firms adjust production to meet demand? 39) _____

- A) the short-run aggregate supply curve
- B) the potential output curve
- C) the market supply curve
- D) the aggregate demand curve
- E) the long-run aggregate supply curve

40) Which of the following is a problem with the price system that can lead to a break down in the coordination of economic activity? 40) _____

- A) prices can be slow to adjust
- B) prices may be flexible
- C) the price system works silently in the background
- D) all of the above
- E) none of the above

41) The process by which monopoly profits leads to technological progress is known as: 41) _____

- A) imperfect competition.
- B) destructive creation.
- C) intellectual property.
- D) economies of scale.
- E) creative destruction.

42) Proponents of a "new economy" in the 1990s claimed: 42) _____

- A) productivity growth was declining.
- B) productivity growth was infinite.
- C) productivity growth would double each year.
- D) productivity growth would permanently increase.

43) Growth accounting refers to the method used to: 43) _____

- A) measure growth in the capital stock.
- B) measure the growth in the labor force.
- C) identify the contribution of economic growth from increased capital, labor, and technological progress.
- D) identify the costs of promises made by the government today but paid for by future generations.

E) none of the above

44) Which of the following is not an example of technological progress?

44) _____

- A) the development of computers
- B) an increase in the labor supply as the result of immigration
- C) the development of new prescription drugs
- D) the invention of no-iron shirts
- E) developing a method to produce cars using less steel

Use the figure below to answer the following questions.

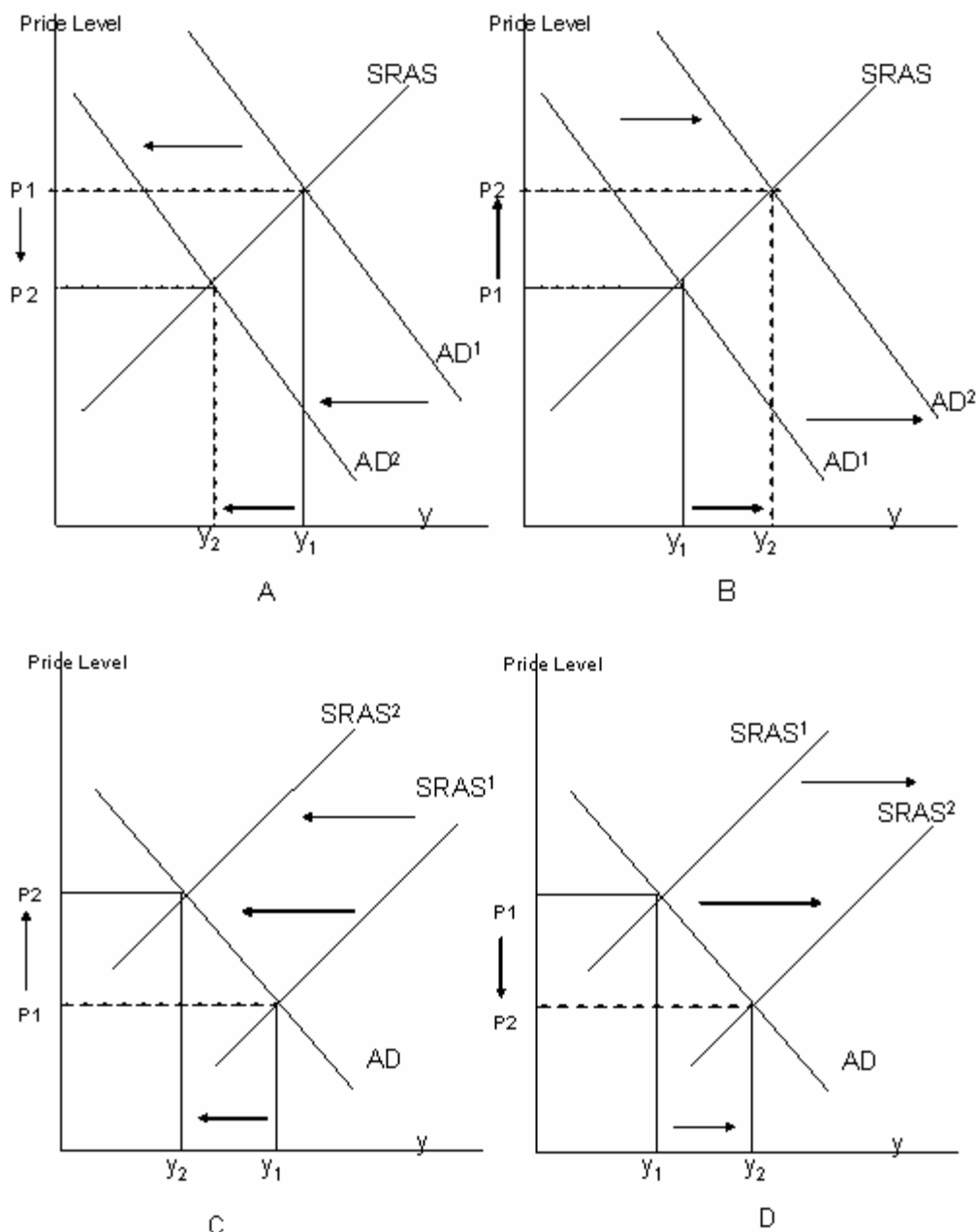


Figure 13.2

45) Which of the graphs from Figure 13.2 correctly depicts the effects of a favorable supply shock?

45) _____

- A) Graph A
- B) Graph B
- C) Graph C
- D) Graph D

- 46) Economic fluctuations may be the result of: 46) _____
- A) a number of small shocks due to, for example, a shift in consumer preferences.
 - B) the effects of a large shock to the economy, such as a crop failure.
 - C) a number of small technology improvements.
 - D) major shifts in technology, such as the invention of steam power.
 - E) all of the above
- 47) The increase in spending that occurs because domestic goods become cheaper relative to foreign goods when the price level falls is known as the: 47) _____
- A) interest rate effect.
 - B) price wealth effect.
 - C) wealth effect.
 - D) international trade effect.
 - E) none of the above
- 48) The average growth rate of potential GDP is called: 48) _____
- A) the GDP deflator.
 - B) Okun's law.
 - C) procyclical.
 - D) nominal GDP.
 - E) the trend rate of growth of real GDP.
- 49) Which of the following economic measures is countercyclical? 49) _____
- A) unemployment
 - B) investment spending
 - C) prices of stocks
 - D) consumption
 - E) none of the above
- 50) Aggregate demand refers to the relationship between: 50) _____
- A) prices and the quantity of a good demanded.
 - B) prices and the quantity of a good supplied.
 - C) the price level and the quantity of real GDP demanded.
 - D) the price level and the quantity of real GDP supplied.
 - E) none of the above

Answer Key

Testname: FINAL EXAMINATION

- 1) C
- 2) B
- 3) D
- 4) B
- 5) D
- 6) E
- 7) B
- 8) E
- 9) C
- 10) A
- 11) D
- 12) C
- 13) A
- 14) C
- 15) B
- 16) A
- 17) B
- 18) C
- 19) A
- 20) A
- 21) D
- 22) E
- 23) A
- 24) A
- 25) D
- 26) C
- 27) A
- 28) E
- 29) B
- 30) B
- 31) B
- 32) B
- 33) B
- 34) B
- 35) C
- 36) B
- 37) A
- 38) C
- 39) A
- 40) A
- 41) E
- 42) D
- 43) C
- 44) B
- 45) D
- 46) E
- 47) D
- 48) E
- 49) A
- 50) C