E322_Summer_08_Midterm_02_Sample Questions_Multiple Choice

Chapter_04

1. The consumer's work-leisure choice problem focuses on how a consumer's work-leisure decision is affected by the consumer's
   (a) preferences and productivity.
   (b) productivity and psychology.
   (c) psychology and preferences.
   (d) preferences and constraints.

   Answer: D

2. In macroeconomic analysis, the representative consumer
   (a) denotes the consumer with the average amount of income.
   (b) plays the role of a stand-in for all consumers in the economy.
   (c) is the consumer who bargains with firms for all workers in the economy.
   (d) is always a misleading fiction.

   Answer: B

3. We assume that the representative consumer's preferences exhibit the properties that
   (a) they evolve over time and that more is always preferred to less.
   (b) more is preferred to less and that the consumer prefers diversity.
   (c) the consumer likes diversity and that more is sometimes preferred to less.
   (d) more is sometimes preferred to less and that consumption and leisure are both normal goods.

   Answer: B

4. We assume that the representative consumer's preferences exhibit the properties that
   (a) they be convex and that more is always preferred to less.
   (b) more is always preferred to less and that each consumer has one strictly favorite good.
   (c) each consumer has one strictly preferred good and that consumption and leisure are both normal goods.
   (d) that consumption and leisure are both normal goods and that the consumer likes diversity in his or her consumption bundle.

   Answer: D

5. A good is inferior for a consumer if
   (a) it is never included in his or her consumption bundle.
   (b) its consumption rises when income rises.
   (c) its consumption falls when income rises.
   (d) some minimal level of the good must be consumed to assure the consumer's survival.

   Answer: C

6. The marginal rate of substitution

(a) can be computed by measuring the slope of the indifference curve.
(b) can be computed by measuring the curvature of the indifference curve.
(c) cannot be deduced from the properties of the indifference curve.
(d) can only be computed if we know the prices of all goods.

Answer: A

7. The representative consumer acts competitively

(a) when he or she can haggle for a lower price.
(b) when he or she is a price-taker.
(c) when he or she is a price-maker.
(d) if the consumer is large relative to the size of the market.

Answer: B

8. A barter economy

(a) cannot be a market economy.
(b) is an economy without monetary exchange.
(c) is an economy with no business firms.
(d) is not a competitive economy.

Answer: B

9. The time constraint for the consumer is

(a) the amount of time for decision making.
(b) expressed as leisure time − time spent working = total time available.
(c) expressed as leisure time − sleep time = time spent working.
(d) expressed as leisure time + time spent working = total time available.

Answer: D

10. The real wage denotes

(a) the number of units of consumption goods that can be exchanged for one unit of labor time.
(b) the number of units of labor time that can be exchanged for one unit of consumption goods.
(c) the number of units of labor time that can be exchanged for one unit of leisure time.
(d) the number of units of leisure time that can be exchanged for one unit of labor time.

Answer:

11. A lump-sum tax is a tax that

(a) can be avoided by strategic behavior.
(b) does not depend on the actions of the economic agent being taxed.
(c) does not depend on the actions of the government.
(d) distorts economic decisions.

Answer: B

12. In a one-period economy, all of the following are equivalent expressions of the budget constraint **except**

(a) $C = w(N^s + l) + \pi - T.$

(b) $C = wN^s + \pi - T.$

(c) $C = w(h - l) + \pi - T.$

(d) $C + wl = wh + \pi - T.$

Answer: A

13. With consumption on the vertical axis and leisure on the horizontal axis, the slope of the budget line is equal to

(a) w.

(b) $-w$.

(c) π.

(d) $-\pi$.

Answer: B

14. The optimal consumption bundle is the point representing a consumption-leisure pair that is on the

(a) lowest possible indifference curve and is on or outside the consumer's budget constraint.

(b) lowest possible indifference curve and is on or inside the consumer's budget constraint.

(c) highest possible indifference curve and is on or outside the consumer's budget constraint.

(d) highest possible indifference curve and is on or inside the consumer's budget constraint.

Answer: D

15. At the optimal consumption bundle, the marginal rate of substitution of leisure for consumption is equal to

(a) the real wage and the budget line is tangent to an indifference curve.

(b) minus the real wage and the budget line is tangent to the indifference curve.

(c) the real wage and the budget line intersects the indifference curve.

(d) minus the real wage and the budget line intersects the indifference curve.

Answer: A

16. An increase in real dividend income minus taxes represents

(a) a pure substitution effect.

(b) a pure income effect.

(c) a combination of income and substitution effects.

(d) neither a pure income effect nor a pure substitution effect.

Answer: B

17. When consumption and leisure are both normal goods, an increase in real dividend income minus taxation, the rational consumer
    (a) increases consumption and increases leisure.
    (b) increases consumption and reduces leisure.
    (c) reduces consumption and increases leisure.
    (d) reduces consumption and reduces leisure.

    Answer: A

18. An increase in the real wage
    (a) represents a pure substitution effect.
    (b) represents a pure income effect.
    (c) represents a combination of income and substitution effects.
    (d) causes a parallel shift in the consumer's budget line.

    Answer: C

19. In the United States during the period 1980 until 2003, there was
    (a) a trend upward in both the real wage and average hours worked.
    (b) an upward trend in real wages, and a downward trend in average hours worked.
    (c) a downward trend in real wages, and an upward trend in average hours worked.
    (d) a downward in both real wages and average hours worked.

    Answer: B

20. An increase in total factor productivity
    (a) changes neither the slope nor the position of the production function.
    (b) changes the slope but not the position of the production function.
    (c) changes the position but not the slope of the production function.
    (d) changes both the slope and the position of the production function.

    Answer: D

21. The Solow residual is a measure of
    (a) average labor productivity.
    (b) average capital productivity.
    (c) total factor productivity.
    (d) the rate of growth of real GDP.

    Answer: C

22. The profit-maximizing quantity of labor equates the marginal product of labor with
    (a) total factor productivity.
    (b) the marginal product of capital.
    (c) the real wage.
    (d) the average product of labor.

Answer: C

Chapter_05

1. In an economic model, an exogenous variable is
    (a) a stand-in for more complicated variables.
    (b) determined by the model itself.
    (c) determined outside the model.
    (d) a variable that has no effect on the workings of the model.

    Answer: C

2. In an economic model, an exogenous variable is
    (a) a stand-in for more complicated variables.
    (b) determined by the model itself.
    (c) determined outside the model.
    (d) a variable that has no effect on the workings of the model.

    Answer: C

3. In an economic model, an endogenous variable is
    (a) a stand-in for more complicated variables.
    (b) determined by the model itself.
    (c) determined outside the model.
    (d) a variable that has no effect on the workings of the model.

    Answer: B

4. In a one-period model, government is likely to run
    (a) a deficit but not a surplus.
    (b) a surplus but not a deficit.
    (c) either a surplus or a deficit.
    (d) neither a surplus nor a deficit.

    Answer: D

5. In a one-period economic model, the government budget constraint requires that government spending
   (a) = taxes + transfers.
   (b) = taxes + borrowing.
   (c) > 0.
   (d) = taxes.
   Answer: D

6. Fiscal policy refers to a government's choices over its
   (a) expenditures, taxes, transfers, and borrowing.
   (b) expenditures, taxes, issuance of money, and borrowing.
   (c) expenditures, foreign affairs, issuance of money, and borrowing.
   (d) issuance of money, taxes, environmental regulations, and foreign affairs.
   Answer: A

7. Making use of an economic model is a process of
   (a) solving hundreds of simultaneous equations.
   (b) running experiments to determine how changes in the endogenous variables will change the exogenous variables.
   (c) running experiments to determine how changes in the exogenous variables will change the endogenous variables.
   (d) resolving inconsistencies in the actions of economic agents.
   Answer: C

8. A competitive equilibrium is a state of affairs in which
   (a) markets clear, and output is maximized.
   (b) output is maximized, and all agents are equally well-off.
   (c) all agents are equally well-off and agents are price-takers.
   (d) agents are price-takers, and markets clear.
   Answer: D

9. In the one-period competitive model we have been studying
   (a) both consumption and total factor productivity are exogenous.
   (b) consumption is exogenous and total factor productivity is endogenous.
   (c) consumption is endogenous and total factor productivity is exogenous.
   (d) both consumption and total factor productivity are endogenous.
   Answer: C

10. A relationship that shows the technological possibilities for an economy as a whole is called a
   (a) production function.
   (b) utility possibilities frontier.
   (c) production possibilities frontier.
   (d) budget constraint.
   Answer: C

11. The production possibilities frontier in the one-period model is a
    (a) behavioral relationship between consumption and leisure.
    (b) behavioral relationship between consumption and government spending.
    (c) technological relationship between consumption and leisure.
    (d) technological relationship between consumption and government spending.

    Answer: C

12. The rate at which one good can be converted technologically into another is called
    (a) the marginal rate of transformation.
    (b) the marginal rate of substitution.
    (c) the marginal product of labor.
    (d) rate of conversion.

    Answer: A

13. Points on the production possibilities frontier have the property that they
    (a) are inherently unattainable.
    (b) show the maximum amount of leisure that can be consumed for given amounts of goods consumed.
    (c) show the maximum amount of goods that can be consumed for given amounts of government spending.
    (d) show the maximum amount of leisure that can be consumed for given amounts of hours worked.

    Answer: B

14. A competitive equilibrium has all of the following properties **except**
    (a) MP_N = slope of PPF.
    (b) $MRS_{l,C} = MRT_{l,C}$.
    (c) $MRT_{l,C} = MP_N$
    (d) $MP_N = w$.

    Answer: A

15. A competitive equilibrium is Pareto optimal if there is no way to rearrange or to reallocate goods so that
    (a) anyone can be made better off.
    (b) no one can be made worse off.
    (c) someone can be made better off without making someone else worse off.
    (d) someone can be made better off without making everyone else worse off.

    Answer: C

16. The first fundamental theorem of welfare economics states that
    (a) under certain conditions, a competitive equilibrium is Pareto optimal.
    (b) a competitive equilibrium is always Pareto optimal.
    (c) under certain conditions, a Pareto optimum is a competitive equilibrium.
    (d) a Pareto optimum is always a competitive equilibrium.

    Answer: A

17. The second fundamental theorem of welfare economics states that
    (a) under certain conditions, a competitive equilibrium is Pareto optimal.
    (b) a competitive equilibrium is always Pareto optimal.
    (c) under certain conditions, a Pareto optimum is a competitive equilibrium.
    (d) a Pareto optimum is always a competitive equilibrium.

    Answer: C

18 An externality is any activity for which an individual firm or consumer does not take into account all
    (a) of the ramifications of its actions on others.
    (b) associated costs.
    (c) associated benefits.
    (d) associated costs and benefits.

    Answer: D

19. The presence of a distorting tax on wage income can result in
    (a) $MP_N < MRT_{l,C}$.
    (b) $MRT_{l,C} < MRS_{l,C}$.
    (c) $MP_N < w$.
    (d) $MRS_{l,C} < MP_N$.

    Answer: D

20. Relative to the social optimum, monopoly power directly leads to
    (a) underproduction.
    (b) overproduction.
    (c) too much leisure.
    (d) too little leisure.

    Answer: A

21. An increase in government spending shifts the PPF
    (a) upward, but does not change its slope.
    (b) upward, and also changes its slope.
    (c) downward, but does not change its slope.
    (d) downward, and also changes its slope.

    Answer: C

22. The experience of the U.S. economy during World War II confirms the prediction that a dramatic increase in government spending is likely to

(a) increase both real GDP and consumption.
(b) increase real GDP and decrease consumption.
(c) decrease real GDP and increase consumption.
(d) decrease both real GDP and consumption.

Answer: B

23. An increase in government spending

(a) increases consumption, increases hours worked, and increases the real wage.
(b) reduces consumption, increases hours worked, and increases the real wage.
(c) reduces consumption, increases hours worked, and reduces the real wage.
(d) reduces consumption, reduces hours worked, and reduces the real wage.

Answer: C

23. In response to an increase in total factor productivity

(a) both the substitution effect and the income effect suggest that hours worked should increase.
(b) the substitution effect suggests that hours worked should increase, while the income effect suggests that hours worked should decrease.
(c) the substitution effect suggests that hours worked should decrease, while the income effect suggests that hours worked should increase.
(d) both the substitution effect and the income effect suggest that hours worked should decrease.

Answer: B