Department of Economics Fall Semester 2016

College of Saint Benedict | Saint John's University Louis Johnston

# Economics 111 – 03A - Introduction to Economics

**Quiz #1**

**September 14, 2016**

**Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

* **You have 30 minutes to complete this quiz.**
* **Answer all questions.**
* **Please circle your answer to each question directly on this sheet.**
1. The market value of all final goods and services produced within a country during a given period of time is also equal to the total amount spent by \_\_\_\_\_\_\_\_\_ minus all spending on imported goods and services.
	1. domestic firms and domestic governments
	2. domestic households, domestic firms and buyers outside the country
	3. domestic households, domestic governments and buyers outside the country
	4. domestic households, domestic firms, domestic governments, and buyers outside the country
2. Suppose that a pizza maker pays $1 for tomatoes, $1 for cheese, $2 for sausage, and sells the pizza made with these ingredients for $7. How much does each pizza sold contribute to GDP?
	1. $3
	2. $4
	3. $7
	4. $11
3. Which of the following transactions would increase the investment component of U.S. GDP?
	1. A laundry in Seattle purchases a new clothes washer produced in Mexico.
	2. A laundry in Mexico purchases a new clothes washer produced in the U.S.
	3. You purchase for your home a new clothes washer produced in the U.S.
	4. You purchase for your home a new clothes washer produced in France.

*Note: Neither (c) nor (d) can be correct since they involve household purchases, which count as consumption. (b) is not correct because the purchase counts as a US export, not as investment.*

1. When an unemployed worker receives a payment from the government as a result of being unemployed, it is:
	1. Included in the consumption category of GDP.
	2. Included in the investment category of GDP.
	3. Included in the government purchases category of GDP.
	4. Not included in any of the expenditure categories.
2. If nominal gross domestic product (GDP) rises from one year to the next, then
	1. the economy must be producing a larger output of goods and services.
	2. the prices at which goods and services are sold must have risen.
	3. either the economy must be producing a larger output of goods and services, or the prices at which goods and services are sold must be higher.
	4. net exports must be falling.
3. Suppose that in 2011 nominal GDP equaled $600.6 billion and real GDP equaled $546.0 billion (in 2009 prices). What was the GDP deflator in 2011? Round to the nearest decimal.
	1. 54.6
	2. 154.6
	3. 90.9
	4. 110.0

$$GDP deflator=\frac{Nominal GDP}{Real GDP}×100$$

$$GDP deflator=\frac{600.6}{546.0}×100=110.0$$

1. The GDP deflator and the Consumer Price Index (CPI) both measure
	1. the total amount of goods and services produced within a country during a given year in the prices of that year.
	2. the general level of prices relative to a base year.
	3. the total amount of goods and services produced within a country during a given year in the prices of a base year.
	4. the price of a specific good during the course of a year.
2. If nominal GDP grows by 6% and the GDP deflator grows by 2%, then real GDP will grow by:
	1. 4%.
	2. 3%.
	3. 8%.
	4. 12%
3. The average price of a gallon of gasoline was $0.35 in 1972 when the CPI equaled 42. The price of a gallon of gasoline was $3.00 in 2009 when the CPI equaled 214. The real price of a gallon of gasoline between 1972 and 2009
	1. increased.
	2. decreased.
	3. remained constant.
	4. may have either increased or decreased.

$$Price of gas in year X (in CPI base year dollars)=\frac{Price of gas in year X}{CPI in year X}×100$$

$$Price of gas in 1972 \left(in CPI base year dollars\right)=\frac{0.35}{42}×100=0.83$$

$$Price of gas in 2009 \left(in CPI base year dollars\right)=\frac{3.00}{214}×100=1.40$$

1. An increase in the overall level of prices in the economy from one year to the next is called:
	1. Inflation.
	2. GDP per capita.
	3. Deflation
	4. The nominal interest rate
2. The real interest rate is
	1. the nominal interest rate corrected for inflation.
	2. the interest rate quoted to a borrower at a bank.
	3. the nominal interest rate minus the inflation rate.
	4. both a and c are correct.
3. Suppose that on January 1, 2014, Edward invested $10,000 at a 5% nominal interest rate for one year. The CPI on January 1, 2014, stood at 160. On January 1, 2015, the CPI was 176. The real rate of interest earned by Edward was \_\_\_\_ percent.
	1. -5
	2. 0
	3. 5
	4. 8
4. A borrower and lender agree to a nominal interest rate on a loan when inflation is expected to be 7% per year. The actual inflation rate turns out to be 10% per year. This means that the borrower \_\_\_\_ and the lender \_\_\_\_.
	1. gains; gains
	2. gains; loses
	3. is not affected; gains
	4. loses; gains
5. The labor-force participation rate is the number of people
	1. employed divided by the labor force.
	2. employed divided by the civilian, non-institutionalized, over-16-years-old population.
	3. employed and unemployed divided by the labor force.
	4. employed and unemployed divided by the civilian, non-institutionalized, over-16-years-old population.
6. Which of the following people would be officially considered unemployed?
	1. Mitchell, who is a full-time student working part-time at a bookstore.
	2. Janice, who is actively seeking a full-time job while currently working at a part-time job.
	3. Jade, who has stopped looking for a job because she feels there are no jobs available for her.
	4. Jenna, who just graduated college and is searching for a job that fits her graphic-design skills.

Use the following table to answer question 16:

|  |  |
| --- | --- |
| Group | Number of people in group (millions) |
| Civilian, non-institutionalized, working-age population. | 243 |
| Not in labor force | 89 |
| Employed | 142 |
| Unemployed | 12 |

1. Using the information in the table, the unemployment rate in this economy is equal to:
	1. 4.9%.
	2. 92.2%.
	3. 63.4%.
	4. 7.8%.

$$\frac{Unemployed}{Labor force}=\frac{12}{142+12}=\frac{12}{154}=0.778=7.8\%$$