

# [Economics and foreign currencies essay sample](https://assignbuster.com/economics-and-foreign-currencies-essay-sample/)

Highlight the 20 multiple choice answers and type in the short answer, essay or problems responses. Save the document and post the attachment into the assignment screen for grading. Good luck to all. Gary

Multiple Choice – 20 Questions – 6 points each question
Total of 120 points for Multiple Choice

1. If the level of aggregate expenditures is greater than real GDP, then the level of output is expected to:

a) increase
b) decrease
c) remain the same
d) change in an unpredictable manner

2. U. S. imports create a domestic demand for foreign currencies, and the satisfaction of this demand:

a) decreases the supply of foreign currencies held by U. S. banksXX b) decreases the demand for foreign currencies held by U. S. banks c) increases the demand for foreign currencies held by U. S. banks d) increases the supply of foreign currencies held by U. S. banks

3. If a European importer can buy $10, 000 for 11, 100 euros, the exchange rate for the euro is:

a) 1 euro = $0. 80
b) 1 euro = $0. 90
c) 1 euro = $0. 95
d) 1 euro = $1. 11

4. Economic growth can best be portrayed as a:

a) leftward shift of the production possibilities curve
b) movement from a point inside to a point outside of the production possibilities curve c) movement from a point near the vertical axis to a point near the horizontal axis on the production possibilities curve d) rightward shift of the production possibilities curve

5. The total volume of business sales in our economy is several times as large as the GDP because:

a) the GDP does not take taxes into account
b) the GDP excludes intermediate transactions
c) the GDP grossly understates the value of our annual output d) total sales are in money terms and GDP is always stated in real terms

6. If there is sufficient time for wage contracts to expire and nominal wage adjustments to occur, then the:

a) economy is operating in the short-run
b) economy has entered the long-run
c) unemployment rate will increase
d) inflation rate will decrease

7. Government-set price floors and price ceilings:

a) do not affect the rationing function of price in a free market b) interfere with the rationing function of price in a free market c) result in surpluses of products in markets where they are used d) result in shortages of products in markets where they are used

8. The amount of consumption in an economy depends:

a) inversely on the level of disposable income
b) directly on the level of disposable income
c) inversely on the level of saving
d) directly on the rate of interest

9. Here are three things you could do if you do not attend your next-door neighbor’s barbecue: watch television with some friends (you value this at $8), read a good novel (you value this at $4), or go in to work (you could earn $6 during the barbecue). The opportunity cost of going to your neighbor’s barbecue is

a.$6, because this is the only alternative of the three where you actually receive a monetary payment.
b.$4, because this is the lowest valued alternative forfeited.
c.$8, because this is the highest valued alternative forfeited.
d.$18, because this is the total dollar sum of the alternatives forfeited.

10. Both country 1 and country 2 are located on their respective PPF, but country 1 produces twice the output that country 2 produces. It follows that
a. country 1’s PPF lies further to the right than country 2’s PPF.
b. country 1 has a smaller population than country 2.
c. country 1 has a bigger population than country 2.
d. country 1 practices capitalism and country 2 practices socialism.
e. none of the above

11. If producers’ surplus is $40, and consumers’ surplus is $30, then what is the minimum selling price?
a.$10
b.$70
c.$30
d.$40
e. There is not enough information to answer the question.

12. A PPF is more likely to be a downward-sloping curve that is bowed outward than a downward-sloping straight line because most resources are
a. better suited for the production of some goods than others.
b. used efficiently.
c. relatively cheap at low levels of output.
d. used to produce consumption goods.

Exhibit 2-6

13. Refer to Exhibit 2-6. Which graph depicts a technological breakthrough in the production of good Y only?
a.(1)
b.(2)
c.(3)
d.(4)
e. none of the above
14. Suppose the market basket consists of 10X, 20Y, and 30Z. Current-year prices are $1. 00 for each unit of X, $0. 96 for each unit of Y, and $1. 13 for each unit of Z. Base-year prices are $1. 00 for each unit of X, Y, and Z. What is the approximate CPI in the current year?

a. 1. 05
b. 203
c. 105. 17XX
d. 309
15. In an economy with 100 million people, 70 million hold jobs and 10 million are not working but are looking for jobs. The number of people in the labor force is
a. 100 million.
b. 40 million.
c. 10 million.
d. 80 million.
e. 70 million

16. Suppose the economy is self-regulating and the (actual) unemployment rate is less than the natural unemployment rate. This means that the economy is producing a level of output
a. above its natural level and will eventually cut back on output. XX
b. below its natural level and will eventually increase output.
c. below its natural level but no forces exist to automatically increase output.
d. above its natural level and institutional constraints will automatically
be reduced so as to allow the economy to continue producing this level.
e. none of the above

Exhibit A

17. Refer to Exhibit A. Assuming the economy is in an inflationary gap at a short-run equilibrium point with the price level at P2, the movement toward long-run equilibrium will be
a. down and along AD1.
b. up and along AD2.
c. down and along SRAS1.
d. up and along SRAS2.
e. down and along SRAS2.

18. Here is a consumption function: C = C0 + MPC(Yd). If MPC is 0. 80, then we know that
a. as Yd rises by $1, Co rises by $0. 80.
b. as Yd rises by $1, C rises by $0. 80.
c. Yd rises by $0. 80.
d. as C0 rises by $0. 80, Yd rises by $1.

Exhibit B

19. Refer to Exhibit B. If the present level of disposable income is Yd1, autonomous consumption is equal to
a. C0.
b. C1.
c. C2.
d. C1 – C0.
e. C2 – C1.

Exhibit C

20. Refer to Exhibit C. At point B, if we cut tax rates slightly, tax revenues
a. increase.
b. decrease.
c. will not change.
d. drop to zero.

Short Answer/Problems/Essays – 12 points each Answer
Total of 190 points for Short Answer/Problems/Essays There are 6 Short Answer/Problems/Essays problems Show the steps to all the problems and answer the essays with complete logical analysis including examples and illustrations. Say what you mean and write what you say.

21) Assume the following open economy for Questions 1a, 1b, 1c and 1d below: — 48 points C = 300 + 0. 80(Y – 125)
I = 150
G = 250
X = 115
M = 125+. 05Y

21a). Determine (solve for) the equilibrium level of income or GDP (Y). The planned expenditure line is c+i+g+mx. I believe from the notation used in the problem that x is exports and m is imports so that mx= 115-(125+. 5y) = -10-. 5y. Thus, expenditures are 300 +. 8(y-125) + 150 + 250 – 10 – . 5y. This simplifies to 590 + . 3y. Thus, this intersects the 45-degree line at 842. 86 (the y where 590 + . 3y = y).

21b). Determine the impact on income of a 50 increase in government spending from 250 to 300. Adding 50 to g increases the expenditure line to 640 +. 3y. Thus, at y= 914. 29, y = 640 + . 3y.

21c). Using the original data, compute the impact of a 50 decrease in taxes from 125 to 75. The new level of consumption is c = 300 + . 8(y – 75) = 300 + . 8y + . 8(75) = 360 + . 8y. Plugging this into the new expenditure line you get 550 + . 3y. The y where y = 550 + . 3y is y= 785. 71.

21d). If the government seeks to raise income to 3, 000, how much should it raise government spending? To solve the problem, we need to backtrack the work. We want y to equal 3000. Thus, we want the new intercept term to the expenditure line, x, to be such that 3000 = x + . 3(3000), which simplifies to 2100 = x. The original problem (with g= 250) had the intercept equal 590. Thus, g needs to increase by 1510 to g= 1760 for y to equal 300

GDP Measurement
22. In calculating GDP, we normally exclude intermediate goods produced and used during the period under question. Explain why it is the case that the value of intermediate goods produced and sold during the year is not included directly as part of GDP, but the value of intermediate goods produced and not sold is included directly as part of GDP. – 12 points Intermediate goods produced and sold during the year are not included separately as part of GDP because the value of those goods will be included in the value of the final goods produced from them. If the intermediate good is produced but not sold during the year, its value is included as inventory investment for the year in which it was produced. If inventory investment was not included as part of GDP, true production would be underestimated for the year the intermediate good went into inventory, and overestimated for the year the intermediate good is used or sold. 23. Use the data on U. S. real GDP below to compute real GDP per person for each year. Then use these numbers to compute the percentage increase in real GDP per person from 1987 to 2005. There are 3 questions here gang. – 36 points

Year| Real GDP (2000 prices)| Population|
1987| $6, 435, 000 million| 243 million|
2005| $11, 092, 000 million| 296. 6 million|
1987$7, 313. 3242, 843$30, 115
1988$7, 613. 9245, 061$31, 069
1989$7, 885. 9247, 387$31, 877
1990$8, 033. 9250, 181$32, 112
1991$8, 015. 1253, 530$31, 614
1992$8, 287. 1256, 922$32, 255
1993$8, 523. 4260, 282$32, 747
1994$8, 870. 7263, 455$33, 671
1995$9, 093. 7266, 588$34, 111
1996$9, 433. 9269, 714$34, 977
1997$9, 854. 3272, 958$36, 102
1998$10, 283. 5276, 154$37, 238
1999$10, 779. 8279, 328$38, 592
2000$11, 226. 0282, 413$39, 750
2001$11, 347. 2285, 294$39, 774
2002$11, 553. 0288, 055$40, 107
2003$11, 840. 7290, 729$40, 728
2004$12, 263. 8293, 348$41, 806
2005$12, 638. 4296, 000$42, 697

About $13K increase from 1987 per person.
24). The table below uses data for the year 2003 provided by the Bureau of Labor Statistics and adjusted to be comparable to U. S. data. All values are in thousands. Fill in the blank entries in the table. — 48 points Country| AdultPopulation| LaborForce| Employed| Unemployed| UnemploymentRate| Labor-ForceParticipationRate| Japan| 109, 474| 66010| 62, 510| 3, 500| 5. 3%| 60. 29%|

France| 46803| 26, 870| 24293| 2, 577| 9. 5%| 57. 41|
Germany| 70, 159| 39, 591| 35754| 3836| 9. 69| 56. 4%| 25). . Teenage unemployment is higher than unemployment of people ages 20 and over. Explain why economists would attribute at least part of this difference to minimum-wage laws. – 12 points. Since teenagers possess less skills, education, training, and experience than most people who are much older there is less of a demand for their services especially at higher wages. If the government sets a minimum wage it is a way of setting up a sort of “ price floor” for labor charges. It can increase the supply and reduce the demand for teenage labor and therefore not allowing the market to clear at the equilibrium price and leading to an excess supply of labor, and finally unemployment.

CPI
Question 26) has 3 parts. Compute how much each of the following items is worth in terms of 2011 dollars using 177 as the price index for 2011. – 34 points 26a). In 1936, the CPI was 17. 7 and the price of a movie ticket was $0. 25. CPI1/CPI2 = P1/P2

17. 7/177 = $0. 25/P2
P2 = $2. 5
price of a movie ticket in 2011 = $2. 5
26b). In 1942, the CPI was 13. 1 and a cook earned $15. 00 a week. b. 13. 1/177 = $15. 00/P2
P2 = $15. 00\*177/13. 1 =$202. 67
cook earned $202. 67 a week in 2011
26c). In 1953, the CPI was 17. 4 and a gallon of gas cost $0. 19.
c. 17. 4/177 = $0. 19/P2
P2 = $0. 19\*177/17. 4
P2 = 1. 93
gallon of gas cost $1. 93 in 2011