

Economics midterm exam

[Economics](#), [Money](#)



Douglas, Fall 2009 November 3, 2009 PLEDGE: I have neither given nor received unauthorized help on this exam. SIGNED: _____

21 A : Special Code 0000___ PRINT NAME: _____

Econ 202 Section 2 Midterm 2 1. The sale of stocks a. and bonds to raise money is equity finance. b. and bonds to raise money is debt finance. c. to raise money is equity finance, while the sale of bonds to raise funds is debt finance. d. to raise money is debt finance, while the sale of bonds to raise funds is equity finance. 2. If you believe that stock prices follow a random walk, then probably you a. do not believe that stock prices reflect all available information. b. believe that it is a good idea to engage in fundamental analysis. c. believe in the validity of the efficient markets hypothesis. d. do not believe that there is positive relationship between risk and return. 3. Grant Gant was a doctor in 1944 and earned \$12, 000 that year. His daughter, Gretta Gant, is a doctor today 4. 5. 6. 7. 8. and she earned \$210, 000 in 2005. The price index was 20 in 1944 and 200 in 2005. Grant Gant's 1944 income in 2005 dollars would be a. \$120, 000 b. \$216, 000 c. \$1, 200. d. \$24, 000. Suppose that in a closed economy $GDP = \$22, 000$, $taxes = \$5000$, $consumption = \$14, 000$, and $government\ purchases = \$6, 000$. What are private saving and public saving? a. \$1, 500 and -\$500, respectively b. \$3000 and \$1000, respectively c. \$3000 and -\$1000, respectively d. 2, 000 and \$1000, respectively Unemployment compensation is a. part of GDP because it represents income. b. not part of GDP because the payments reduce business profits. c. part of GDP because the recipients must have worked in the past to qualify. d. not part of GDP because it is a transfer payment. The old adage, " Don't put all your eggs in one basket, " is

very similar to a modern bit of advice concerning financial matters: a. " Diversify. " b. " Use a medium of exchange. " c. " Intermediate. " d. " Buy low-risk bonds. " Who is the current chairman of the Federal Reserve's Board of Governors? a. Ben Bernanke b. Nicholas Biddle c. William Trumbull d. Alan Greenspan All else equal, when people become more optimistic about a company's future, the a. supply of the stock and the price will both rise. b. demand for the stock and the price will both fall. c. demand for the stock and the price will both rise. d. supply of the stock and the price will both fall. 1 Econ202Sec02 Exam 2, Fall 2009 Douglas, A 9. What would happen to the equilibrium price and quantity sold of ski poles if the price of new skis (a complement) falls, at the same time that the cost of aluminum used in ski poles rises? a. Quantity will rise and price may either rise or fall. b. Price will rise and quantity may either rise or fall. c. Quantity will fall and price may either rise or fall. d. Price will fall and quantity may either rise or fall. Table 28-1 Labor Data for Wrexington Year Adult population Number of employed Number of unemployed 2004 2000 1400 200 2005 3000 1300 600 2006 3200 1600 200 10. Refer to Table 28-1. The labor force of Wrexington in 2004 was a. 1400. b. 1800. c. 2000. d. 1600. 11. Which of the following events could explain an increase in interest rates occurring at the same time as a decrease in investment? a. The government instituted an investment tax credit. b. The government budget went from surplus to deficit. c. The government reduced the tax rate on savings. d. None of the above is correct. 12. Suppose you purchased \$100, 000 worth of stock in the Mania Housing Company using \$50, 000 of your own financial capital (money), and \$50, 000 of borrowed money. You sold the stock a year later for \$80, 000 and paid off

your loan with 10% interest. You received a return on your own capital of a. -20%. Leverage makes no difference in how much you lose. b. -25%. Without leverage you would have taken only a 20% loss. c. -50%. Without leverage, you would have taken only a 20% loss. d. -40%. If you had taken on more leverage, you would have lost more.

13. Mixster Concrete Company is considering buying a new cement truck. The owners and their accountants decide that this is the profitable thing to do. Before they can buy the truck, the interest rate and price of trucks change. In which case do these changes both make them less likely to buy the truck? a. Interest rates rise and truck prices rise. b. Interest rates rise and truck prices fall. c. Interest rates fall and truck prices rise. d. Interest rates fall and truck prices fall.

14. Demand deposits are included in a. M1 and M2. b. M2 but not M1. c. M1 but not M2. d. neither M1 nor M2.

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15. The Fed's control of the money supply is not precise because a. the Fed does not know where all U. S. currency is located. b. there are not always government bonds available for purchase when the Fed wants to Douglas, A

16. 17. 18. 19. 20. 21. 22. perform open-market operations. Congress can also make changes to the money supply. the amount of money in the economy depends in part on banks' willingness to hold excess reserves. When opening a print shop you need to buy printers, computers, furniture, and similar items. Economists call these expenditures a. business consumption expenditures. b. capital investment. c. personal saving. d. investment in human capital. If the reserve ratio for all banks is 20 percent, then \$100 of new reserves can generate a. \$500 of new money in the economy. b. \$250 of new money in the economy. c. \$60 of new money in the economy. d. \$2, 000 of new money

in the economy. If banks desire to hold no excess reserves, the reserve ratio is 10 percent, and a bank that was previously just meeting its reserve requirement receives a new deposit of \$400, then initially the bank has a

- \$360 increase in excess reserves and \$40 increase in required reserves.
- \$400 increase in required reserves and no increase in excess reserves.
- \$400 increase in excess reserves and no increase in required reserves.
- \$40 increase in excess reserves and \$360 increase in required reserves.

Who is included in the labor force by the Bureau of Labor Statistics?

- Geroy, who does not have a job, but is looking for work
- Kwamie, a full-time student not looking for work
- Azibo, a homemaker not looking for other work
- None of the above is correct.

Fred is considering expanding his dress shop. If interest rates rise he is

- less likely to expand; thus, the supply of loanable funds has a negative slope.
- less likely to expand; thus, the demand for loanable funds has a negative slope.
- more likely to expand; thus, the supply of loanable funds has a positive slope.
- more likely to expand; thus the demand for loanable funds has a positive slope.

Currently the U. S. unemployment rate (U3) is about

9. 8%, meaning that cyclical unemployment is at about 2. 8%.
11. 5%, meaning that cyclical unemployment is at about 6%.
5. 5%, meaning that cyclical unemployment is at about 4. 5%.
9. 8%, meaning that cyclical unemployment is at about 4. 3%.

If a reform of the tax laws encourages greater saving, the result would be

- higher interest rates and less investment.
- lower interest rate and less investment.
- higher interest rates and greater investment.
- lower interest rates and greater investment.

c. d. 3 Econ202Sec02 Exam 2, Fall 2009 Douglas, A 23. If the nominal

interest rate is 6 percent and the rate of inflation is 9 percent, then the real interest rate is a. -0.33 percent. b. 15 percent. c. -3 percent. d. 3 percent.

Figure 4-7. Supply and Demand for Shovels. 24. Suppose the shovel market is currently in equilibrium as shown in Figure 4-7. What could cause the equilibrium price of shovels to rise to \$35 and the equilibrium quantity to fall to 200? a. an increase in the price of steel used to make shovels. b. a drop in the price of unskilled labor (a complement). c. an improvement in the technology used to produce shovels. d. a fall in consumer income (shovels are a normal good). 25. Fran buys 1,000 shares of stock issued by Miller Brewing. In turn, Miller uses the funds to buy new machinery for one of its breweries. a. Fran is investing; Miller is saving. b. Fran is saving; Miller is investing. c. Fran and Miller are both saving. d. Fran and Miller are both investing. 26. According to James Hamilton, the "shadow banking system" consists of "new players" that play a similar role to traditional banks, but are outside the existing regulatory structure, primarily a. government sponsored enterprises such as Fannie Mae and Freddie Mac. b. hedge funds, investment banks, and investment vehicles funded with commercial paper. c. wealthy foreigners involved in the international drug trade. d. foreign state-owned banks, such as the Bank of China. 27. The deviation of unemployment from its natural rate is called a. cyclical unemployment. b. structural unemployment. c. the unnatural rate of unemployment. d. frictional unemployment. 4 Econ202Sec02 Exam 2, Fall 2009 Figure 28-1 Douglas, A 28. Refer to Figure 28-1. If the government imposes a minimum wage of \$8, then how many workers will be 29. 30. 31. 32. EMPLOYED? a. 7000 b. 3000 c. 4000 d. 5000 What will happen to the equilibrium price and quantity of ice

cream if the weather changes from very cold to very hot at the same time that several ice cream companies go out of business? a. Quantity will fall and price may either rise or fall. b. Price will fall and the quantity may either rise or fall. c. Price will rise and quantity may either rise or fall. d. Quantity will rise and price may either rise or fall.

The present value of a payment to be made in the future falls as a. the interest rate rises and the time until the payment is made increases. b. the interest rate rises and the time until the payment is made decreases. c. the interest rate falls and the time until the payment is made increases. d. the interest rate falls and the time until the payment is made decreases.

What is the present value of a payment of \$110 to be made one year from now using an interest rate of 5%? a. \$95. 24 b. \$105. 00 c. \$104. 76 d. \$115. 50

Which of the following events will definitely cause equilibrium price in a market to fall? a. demand decreases and supply increases b. demand and supply both increase c. demand and supply both decrease d. demand increases and supply decreases

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33. For the purpose of calculating GDP, investment is spending on a. stocks, bonds, and other financial assets. b. capital equipment, inventories, and structures, including household purchases of new housing. c. capital equipment, inventories, and structures, excluding household purchases of new housing. d. real estate and financial assets such as stocks and bonds.

34. Which of the following does not help reduce frictional unemployment? a. government-run employment agencies b. public training programs c. unemployment insurance d. All of the above help reduce frictional unemployment.

35. To decrease the money supply, the Fed can a. sell government bonds or decrease the discount rate. b. sell

government bonds or increase the discount rate. c. buy government bonds or increase the discount rate. d. buy government bonds or decrease the discount rate. c. 6 ID: A Econ 202 Section 2 Midterm 2 Answer Section

MULTIPLE CHOICE 1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18. 19. 20. 21. 22. 23. 24. 25. 26. 27. 28. 29. 30. 31. 32. 33. 34. 35. C C A C D A A C B D B C A A D B A A B D D C A B B A B C A C A B C B 1 Douglas, Fall

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Econ 202 Section 2 Midterm 2 1. To decrease the money supply, the Fed can

a. sell government bonds or increase the discount rate. b. sell government bonds or decrease the discount rate. c. buy government bonds or increase the discount rate. d. buy government bonds or decrease the discount rate. 2.

Unemployment compensation is a. not part of GDP because the payments reduce business profits. b. part of GDP because the recipients must have worked in the past to qualify. c. not part of GDP because it is a transfer payment. d. part of GDP because it represents income. 3. Grant Gant was a doctor in 1944 and earned \$12, 000 that year. His daughter, Gretta Gant, is a doctor today 4. 5. 6. 7. and she earned \$210, 000 in 2005. The price index was 20 in 1944 and 200 in 2005. Grant Gant’s 1944 income in 2005 dollars would be a. \$120, 000 b. \$216, 000 c. \$24, 000. d. \$1, 200. If you believe that stock prices follow a random walk, then probably you a. do not believe that stock prices reflect all available information. b. believe in the validity of the efficient markets hypothesis. c. do not believe that there is positive relationship between risk and return. d. believe that it is a good idea to

engage in fundamental analysis. If the nominal interest rate is 6 percent and the rate of inflation is 9 percent, then the real interest rate is a. 3 percent. b. -3 percent. c. 15 percent. d. -0.33 percent.

Fran buys 1,000 shares of stock issued by Miller Brewing. In turn, Miller uses the funds to buy new machinery for one of its breweries. a. Fran and Miller are both investing. b. Fran and Miller are both saving. c. Fran is saving; Miller is investing. d. Fran is investing; Miller is saving.

What is the present value of a payment of \$110 to be made one year from now using an interest rate of 5%? a. \$104.76 b. \$115.50 c. \$105.00 d. \$95.24

1 Econ202Sec02 Exam 2, Fall 2009 Douglas, B 8. Which of the following events could explain an increase in interest rates occurring at the same time as a decrease in investment? a. The government reduced the tax rate on savings. b. The government budget went from surplus to deficit. c. The government instituted an investment tax credit. d. None of the above is correct.

Table 28-1 Labor Data for Wrexington Year

| Adult population | Number of employed | Number of unemployed |
|------------------|--------------------|----------------------|
| 2004 | 2000 | 1400 |
| 2005 | 3000 | 1300 |
| 2006 | 3200 | 1600 |

9. Refer to Table 28-1. The labor force of Wrexington in 2004 was a. 1400. b. 1800. c. 1600. d. 2000.

10. If the reserve ratio for all banks is 20 percent, then \$100 of new reserves can generate a. \$500 of new money in the economy. b. \$2,000 of new money in the economy. c. \$250 of new money in the economy. d. \$60 of new money in the economy.

11. Demand deposits are included in a. M1 but not M2. b. M2 but not M1. c. neither M1 nor M2. d. M1 and M2.

12. Who is the current chairman of the Federal Reserve's Board of Governors? a. Alan Greenspan b. Nicholas Biddle c. Ben Bernanke d. William Trumbull

13. The present value of a payment to be made in the future falls as a. the interest

rate falls and the time until the payment is made increases. b. the interest rate rises and the time until the payment is made decreases. c. the interest rate rises and the time until the payment is made increases. d. the interest rate falls and the time until the payment is made decreases. 14. Currently the U. S. unemployment rate (U3) is about a. 5. 5%, meaning that cyclical unemployment is at about 4. 5%. b. 9. 8%, meaning that cyclical unemployment is at about 4. 3%. c. 11. 5%, meaning that cyclical unemployment is at about 6%. d. 9. 8%, meaning that cyclical unemployment is at about 2. 8%. 2 Econ202Sec02 Exam 2, Fall 2009

Douglas, B 15. What would happen to the equilibrium price and quantity sold of ski poles if the price of new skis (a 16. 17. 18. 19. complement) falls, at the same time that the cost of aluminum used in ski poles rises? a. Price will rise and quantity may either rise or fall. b. Quantity will rise and price may either rise or fall. c. Price will fall and quantity may either rise or fall. d. Quantity will fall and price may either rise or fall. Who is included in the labor force by the Bureau of Labor Statistics? a. Azibo, a homemaker not looking for other work b. Kwamie, a full-time student not looking for work c. Geroy, who does not have a job, but is looking for work d. None of the above is correct. If a reform of the tax laws encourages greater saving, the result would be a. lower interest rate and less investment. b. higher interest rates and greater investment. c. lower interest rates and greater investment. d. higher interest rates and less investment. Suppose that in a closed economy $GDP = \$22,000$, $taxes = \$5000$, $consumption = \$14,000$, and $government\ purchases = \$6,000$. What are private saving and public saving? a. 2, 000 and \$1000, respectively b. \$3000 and -\$1000, respectively c. \$3000 and

\$1000, respectively d. \$1, 500 and -\$500, respectively When opening a print shop you need to buy printers, computers, furniture, and similar items.

Economists call these expenditures a. capital investment. b. business consumption expenditures. c. investment in human capital. d. personal

saving. Figure 4-7. Supply and Demand for Shovels. 20. Suppose the shovel market is currently in equilibrium as shown in Figure 4-7. What could cause the equilibrium price of shovels to rise to \$35 and the equilibrium quantity to fall to 200? a. an increase in the price of steel used to make shovels. b. a

drop in the price of unskilled labor (a complement). c. an improvement in the technology used to produce shovels. d. a fall in consumer income (shovels are a normal good). 3 Econ202Sec02 Exam 2, Fall 2009 21. The deviation of

unemployment from its natural rate is called a. structural unemployment. b. cyclical unemployment. c. the unnatural rate of unemployment. d. frictional unemployment. 22. For the purpose of calculating GDP, investment is

spending on a. stocks, bonds, and other financial assets. b. capital equipment, inventories, and structures, including household purchases of new c. d. Douglas, B housing. real estate and financial assets such as stocks and bonds. capital equipment, inventories, and structures, excluding

household purchases of new housing. Figure 28-1 23. Refer to Figure 28-1. If the government imposes a minimum wage of \$8, then how many workers will be EMPLOYED? a. 7000 b. 4000 c. 5000 d. 3000 24. The Fed's control of the money supply is not precise because a. Congress can also make changes

to the money supply. b. there are not always government bonds available for purchase when the Fed wants to perform open-market operations. c. the Fed does not know where all U. S. currency is located. d. the amount of money in

the economy depends in part on banks' willingness to hold excess reserves.

25. What will happen to the equilibrium price and quantity of ice cream if the weather changes from very cold to very hot at the same time that several ice cream companies go out of business? a. Quantity will rise and price may either rise or fall. b. Price will fall and the quantity may either rise or fall. c. Price will rise and quantity may either rise or fall. d. Quantity will fall and price may either rise or fall. 4 Econ202Sec02 Exam 2, Fall 2009 Douglas, B

26. Suppose you purchased \$100,000 worth of stock in the Mania Housing Company using \$50,000 of your own 27. 28. 29. 30. 31. 32. 33. financial capital (money), and \$50,000 of borrowed money. You sold the stock a year later for \$80,000 and paid off your loan with 10% interest. You received a return on your own capital of a. -50%. Without leverage, you would have taken only a 20% loss. b. -20%. Leverage makes no difference in how much you lose. c. -40%. If you had taken on more leverage, you would have lost more. d. -25%. Without leverage you would have taken only a 20% loss.

Which of the following events will definitely cause equilibrium price in a market to fall? a. demand increases and supply decreases b. demand and supply both increase c. demand decreases and supply increases d. demand and supply both decrease Fred is considering expanding his dress shop. If

interest rates rise he is a. more likely to expand; thus the demand for loanable funds has a positive slope. b. more likely to expand; thus, the supply of loanable funds has a positive slope. c. less likely to expand; thus, the supply of loanable funds has a negative slope. d. less likely to expand; thus, the demand for loanable funds has a negative slope. According to James Hamilton, the "shadow banking system" consists of "new players"

that play a similar role to traditional banks, but are outside the existing regulatory structure, primarily a. hedge funds, investment banks, and investment vehicles funded with commercial paper. b. government sponsored enterprises such as Fannie Mae and Freddie Mac. c. wealthy foreigners involved in the international drug trade. d. foreign state-owned banks, such as the Bank of China. Which of the following does not help reduce frictional unemployment? a. public training programs b. unemployment insurance c. government-run employment agencies d. All of the above help reduce frictional unemployment. All else equal, when people become more optimistic about a company's future, the a. supply of the stock and the price will both fall. b. supply of the stock and the price will both rise. c. demand for the stock and the price will both fall. d. demand for the stock and the price will both rise. If banks desire to hold no excess reserves, the reserve ratio is 10 percent, and a bank that was previously just meeting its reserve requirement receives a new deposit of \$400, then initially the bank has a a. \$360 increase in excess reserves and \$40 increase in required reserves. b. \$400 increase in excess reserves and no increase in required reserves. c. \$40 increase in excess reserves and \$360 increase in required reserves. d. \$400 increase in required reserves and no increase in excess reserves. The sale of stocks a. to raise money is debt finance, while the sale of bonds to raise funds is equity finance. b. and bonds to raise money is debt finance. c. to raise money is equity finance, while the sale of bonds to raise funds is debt finance. d. and bonds to raise money is equity finance. 5

Econ202Sec02 Exam 2, Fall 2009 Douglas, B 34. Mixster Concrete Company is considering buying a new cement truck. The owners and their accountants

decide that this is the profitable thing to do. Before they can buy the truck, the interest rate and price of trucks change. In which case do these changes both make them less likely to buy the truck? a. Interest rates fall and truck prices fall. b. Interest rates rise and truck prices fall. c. Interest rates fall and truck prices rise. d. Interest rates rise and truck prices rise. 35. The old adage, " Don't put all your eggs in one basket, " is very similar to a modern bit of advice concerning financial matters: a. " Buy low-risk bonds. " b. " Use a medium of exchange. " c. " Intermediate. " d. " Diversify. "

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2. What will happen to the equilibrium price and quantity of ice cream if the weather changes from very cold to 3. 4. 5. 6. 7. very hot at the same time that several ice cream companies go out of business? a. Quantity will fall and price may either rise or fall. b. Price will rise and quantity may either rise or fall. c. Quantity will rise and price may either rise or fall. d. Price will fall and the quantity may either rise or

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unskilled labor (a complement). b. an improvement in the technology used to produce shovels. c. an increase in the price of steel used to make shovels. d. a fall in consumer income (shovels are a normal good). Fran buys 1, 000 shares of stock issued by Miller Brewing. In turn, Miller uses the funds to buy new machinery for one of its breweries. a. Fran is investing; Miller is saving. b. Fran is saving; Miller is investing. c. Fran and Miller are both saving. d. Fran and Miller are both investing. Demand deposits are included in a. neither M1 nor M2. b. M1 but not M2. c. M2 but not M1. d. M1 and M2. If the reserve ratio for all banks is 20 percent, then \$100 of new reserves can generate a. \$2, 000 of new money in the economy. b. \$250 of new money in the economy. c. \$500 of new money in the economy. d. \$60 of new money in the economy. According to James Hamilton, the " shadow banking system" consists of " new players" that play a similar role to traditional banks, but are outside the existing regulatory structure, primarily a. government sponsored enterprises such as Fannie Mae and Freddie Mac. b. wealthy foreigners involved in the international drug trade. c. foreign state-owned banks, such as the Bank of China. d. hedge funds, investment banks, and investment vehicles funded with commercial paper. All else equal, when people become more optimistic about a company's future, the a. supply of the stock and the price will both fall. b. demand for the stock and the price will both rise. c. demand for the stock and the price will both fall. d. supply of the stock and the price will both rise. 2 Econ202Sec02 Exam 2, Fall 2009 14. Who is included in the labor force by the Bureau of Labor Statistics? a. Geroy, who does not have a job, but is looking for work b. Azibo, a homemaker not looking for other work c. Kwamie, a full-time student not looking for work d.

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18. To decrease the money supply, the Fed can a. buy government bonds or decrease the discount rate. b. buy government bonds or increase the discount rate. c. sell government bonds or decrease the discount rate. d. sell government bonds or increase the discount rate.

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| 2005 | 3000 | 1300 | 600 |
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23. Refer to Figure 28-1. If the government imposes a minimum wage of \$8, then how many workers will be EMPLOYED? a. 5000 b. 3000 c. 7000 d. 4000

24. If you believe that stock prices follow a random walk, then probably you a. believe that it is a good idea to engage in fundamental analysis. b. do not believe that there is positive relationship between risk and return. c. do not believe that stock prices reflect all available information. d. believe in the validity of the efficient markets hypothesis. 4 Econ202Sec02 Exam 2, Fall 2009 Douglas, C 25. Which of the following events could explain an increase in interest rates occurring at the same time as a 26. 27. 28. 29. 30. 31. 32. decrease in investment? a. The government instituted an investment tax credit. b. The government budget went from surplus to deficit. c. The government reduced the tax rate on savings. d. None of the above is correct.

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If banks desire to hold no excess reserves, the reserve ratio is 10 percent, and a bank that was previously just meeting its reserve requirement receives a new deposit of \$400, then initially the bank has a a. \$360 increase in excess reserves and \$40 increase in required reserves. b. \$400 increase in required reserves and no increase in excess reserves. c. \$40 increase in excess reserves and \$360 increase in required reserves. d. \$400 increase in excess reserves and no increase in required reserves.

If a reform of the tax laws encourages greater saving, the result would be a. lower interest rates and greater investment. b. higher interest rates and greater investment. c. higher interest rates and less investment. d. lower interest rate and less investment.

Fred is considering expanding his dress shop. If interest rates rise he is a. more likely to expand; thus, the supply of loanable funds has a positive slope. b. less likely to expand; thus, the demand for loanable funds has a negative slope. c. less likely to expand; thus, the supply of loanable funds has a negative slope. d. more likely to expand; thus the demand for loanable funds has a positive slope.

Suppose that in a closed economy $GDP = \$22,000$, $taxes = \$5000$, $consumption = \$14,000$, and $government purchases = \$6,000$. What are private saving and public saving? a. 2,000 and \$1000, respectively b. \$3000 and -\$1000, respectively c. \$1,500 and -\$500, respectively d. \$3000 and \$1000, respectively

Which of the following does not help reduce frictional unemployment? a. unemployment insurance

b. public training programs c. government-run employment agencies d. All of the above help reduce frictional unemployment. 5 Econ202Sec02 Exam 2, Fall 2009 Douglas, C 33. The old adage, " Don't put all your eggs in one basket, " is very similar to a modern bit of advice concerning financial matters: a. " Use a medium of exchange. " b. " Diversify. " c. " Buy low-risk bonds. " d. " Intermediate. " 34. Grant Gant was a doctor in 1944 and earned \$12, 000 that year. His daughter, Gretta Gant, is a doctor today and she earned \$210, 000 in 2005. The price index was 20 in 1944 and 200 in 2005. Grant Gant's 1944 income in 2005 dollars would be a. \$24, 000. b. \$1, 200. c. \$120, 000 d. \$216, 000 35. Unemployment compensation is a. not part of GDP because it is a transfer payment. b. part of GDP because the recipients must have worked in the past to qualify. c. not part of GDP because the payments reduce business profits. d. part of GDP because it represents income. 6 ID: C Econ 202 Section 2 Midterm 2 Answer Section MULTIPLE CHOICE 1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13. 14. 15. 16. 17. 18. 19. 20. 21. 22. 23. 24. 25. 26. 27. 28. 29. 30. 31. 32. 33. 34. 35. D B A C D C C C B D C D B A A D D D C A C D B D B C C A A B B A B C A 1 Douglas, Fall 2009

November 3, 2009 PLEDGE: I have neither given nor received unauthorized help on this exam. SIGNED: _____ 24 D: Special Code 0000__ PRINT NAME: _____ Econ 202 Section 2 Midterm 2 1. Who is included in the labor force by the Bureau of Labor Statistics? a. Geroy, who does not have a job, but is looking for work b. Azibo, a homemaker not looking for other work c. Kwamie, a full-time student not looking for work d. None of the above is correct. 2. If banks desire to hold no excess reserves, the reserve ratio is 10 percent, and a bank that was

previously just meeting its reserve requirement receives a new deposit of \$400, then initially the bank has a

- \$360 increase in excess reserves and \$40 increase in required reserves.
- \$400 increase in excess reserves and no increase in required reserves.
- \$40 increase in excess reserves and \$360 increase in required reserves.
- \$400 increase in required reserves and no increase in excess reserves.

Table 28-1 Labor Data for Wrexington

| Year | Adult population | Number of employed | Number of unemployed |
|------|------------------|--------------------|----------------------|
| 2004 | 2000 | 1400 | 200 |
| 2005 | 3000 | 1300 | 600 |
| 2006 | 3200 | 1600 | 200 |

3. Refer to Table 28-1. The labor force of Wrexington in 2004 was

- 2000.
- 1800.
- 1400.
- 1600.

4. If the nominal interest rate is 6 percent and the rate of inflation is 9 percent, then the real interest rate is

- 3 percent.
- 3 percent.
- 15 percent.
- 0.33 percent.

5. To decrease the money supply, the Fed can

- sell government bonds or decrease the discount rate.
- sell government bonds or increase the discount rate.
- buy government bonds or decrease the discount rate.
- buy government bonds or increase the discount rate.

6. The old adage, "Don't put all your eggs in one basket," is very similar to a modern bit of advice concerning financial matters:

- "Intermediate."
- "Diversify."
- "Buy low-risk bonds."
- "Use a medium of exchange."

1 Econ202Sec02 Exam 2, Fall 2009 Figure 4-7. Supply and Demand for Shovels. Douglas, D

7. Suppose the shovel market is currently in equilibrium as shown in Figure 4-7. What could cause the

- equilibrium price of shovels to rise to \$35 and the equilibrium quantity to fall to 200?
- an increase in the price of steel used to make shovels.
- a fall in consumer income (shovels are a normal good).
- an improvement in the technology used to produce shovels.
- a drop in the price of unskilled labor (a

complement). The sale of stocks and bonds to raise money is debt finance.

a. and bonds to raise money is equity finance. c. to raise money is debt finance, while the sale of bonds to raise funds is equity finance. d. to raise money is equity finance, while the sale of bonds to raise funds is debt finance.

If the reserve ratio for all banks is 20 percent, then \$100 of new reserves can generate

a. \$500 of new money in the economy. b. \$2,000 of new money in the economy. c. \$60 of new money in the economy. d. \$250 of new money in the economy.

Grant Gant was a doctor in 1944 and earned \$12,000 that year. His daughter, Gretta Gant, is a doctor today and she earned \$210,000 in 2005. The price index was 20 in 1944 and 200 in 2005. Grant Gant's 1944 income in 2005 dollars would be

a. \$120,000 b. \$1,200. c. \$216,000 d. \$24,000.

Which of the following events could explain an increase in interest rates occurring at the same time as a decrease in investment?

a. The government instituted an investment tax credit. b. The government budget went from surplus to deficit. c. The government reduced the tax rate on savings. d. None of the above is correct.

Fran buys 1,000 shares of stock issued by Miller Brewing. In turn, Miller uses the funds to buy new machinery for one of its breweries.

a. Fran is saving; Miller is investing. b. Fran is investing; Miller is saving. c. Fran and Miller are both saving. d. Fran and Miller are both investing.

2 Econ202Sec02 Exam 2, Fall 2009 13.

The present value of a payment to be made in the future falls as

a. the interest rate falls and the time until the payment is made decreases. b. the interest rate rises and the time until the payment is made decreases. c. the interest rate falls and the time until the payment is made increases. d. the interest rate rises and the time until the payment is made increases.

14. If

you believe that stock prices follow a random walk, then probably you a. believe in the validity of the efficient markets hypothesis. b. do not believe that there is positive relationship between risk and return. c. do not believe that stock prices reflect all available information. d. believe that it is a good idea to engage in fundamental analysis.

15. If a reform of the tax laws encourages greater saving, the result would be a. higher interest rates and less investment. b. lower interest rates and greater investment. c. higher interest rates and greater investment. d. lower interest rate and less investment.

16. Which of the following does not help reduce frictional unemployment? a. public training programs b. government-run employment agencies c. unemployment insurance d. All of the above help reduce frictional unemployment.

Douglas, D Figure 28-1

17. Refer to Figure 28-1. If the government imposes a minimum wage of \$8, then how many workers will be EMPLOYED? a. 3000 b. 4000 c. 7000 d. 5000

18. Suppose that in a closed economy $GDP = \$22,000$, $taxes = \$5000$, $consumption = \$14,000$, and $government\ purchases = \$6,000$. What are private saving and public saving? a. \$3000 and -\$1000, respectively b. \$3000 and \$1000, respectively c. 2,000 and \$1000, respectively d. \$1,500 and -\$500, respectively

Econ202Sec02 Exam 2, Fall 2009

19. The Fed's control of the money supply is not precise because a. the Fed does not know where all U. S. currency is located. b. the amount of money in the economy depends in part on banks' willingness to hold Douglas, D 20. 21. 22. 23. 24. 25. 26. excess reserves.

there are not always government bonds available for purchase when the Fed wants to perform open-market operations. d. Congress can also make changes to the money supply. Demand deposits are included in a. neither M1

nor M2. b. M1 and M2. c. M2 but not M1. d. M1 but not M2. Which of the following events will definitely cause equilibrium price in a market to fall? a. demand increases and supply decreases b. demand and supply both increase c. demand decreases and supply increases d. demand and supply both decrease

Currently the U. S. unemployment rate (U3) is about a. 9. 8%, meaning that cyclical unemployment is at about 2. 8%. b. 9. 8%, meaning that cyclical unemployment is at about 4. 3%. c. 11. 5%, meaning that cyclical unemployment is at about 6%. d. 5. 5%, meaning that cyclical unemployment is at about 4. 5%.

What is the present value of a payment of \$110 to be made one year from now using an interest rate of 5%? a. \$95. 24 b. \$115. 50 c. \$105. 00 d. \$104. 76

When opening a print shop you need to buy printers, computers, furniture, and similar items. Economists call these expenditures a. personal saving. b. business consumption expenditures. c. capital investment. d. investment in human capital.

For the purpose of calculating GDP, investment is spending on a. stocks, bonds, and other financial assets. b. capital equipment, inventories, and structures, excluding household purchases of new housing. c. real estate and financial assets such as stocks and bonds. d. capital equipment, inventories, and structures, including household purchases of new housing.

Who is the current chairman of the Federal Reserve's Board of Governors? a. Alan Greenspan b. Ben Bernanke c. William Trumbull d. Nicholas Biddle

c. 4 Econ202Sec02 Exam 2, Fall 2009 Douglas, D 27. Mixster Concrete Company is considering buying a new cement truck. The owners and their accountants 28. 29. 30. 31. 32. 33. 34. decide that this is the profitable thing to do. Before they can buy the truck, the interest rate and price of trucks change. In which case do these

changes both make them less likely to buy the truck? a. Interest rates rise and truck prices fall. b. Interest rates rise and truck prices rise. c. Interest rates fall and truck prices fall. d. Interest rates fall and truck prices rise.

According to James Hamilton, the "shadow banking system" consists of "new players" that play a similar role to traditional banks, but are outside the existing regulatory structure, primarily a. wealthy foreigners involved in the international drug trade. b. foreign state-owned banks, such as the Bank of China. c. hedge funds, investment banks, and investment vehicles funded with commercial paper. d. government sponsored enterprises such as Fannie Mae and Freddie Mac.

Suppose you purchased \$100,000 worth of stock in the Mania Housing Company using \$50,000 of your own financial capital (money), and \$50,000 of borrowed money. You sold the stock a year later for \$80,000 and paid off your loan with 10% interest. You received a return on your own capital of a. -20%. Leverage makes no difference in how much you lose. b. -25%. Without leverage you would have taken only a 20% loss. c. -40%. If you had taken on more leverage, you would have lost more. d. -50%.

Without leverage, you would have taken only a 20% loss. What will happen to the equilibrium price and quantity of ice cream if the weather changes from very cold to very hot at the same time that several ice cream

companies go out of business? a. Price will fall and the quantity may either rise or fall. b. Quantity will rise and price may either rise or fall. c. Price will rise and quantity may either rise or fall. d. Quantity will fall and price may either rise or fall. What would happen to the equilibrium price and quantity sold of ski poles if the price of new skis (a complement) falls, at the same time that the cost of aluminum used in ski poles rises? a. Quantity will rise

22 23 24 25 26 27 28 29 30 31 32 33 34 35 B 33 4 3 18 2 35 12 31 15 9 8 26
34 11 24 19 10 32 16 28 14 17 5 20 6 29 21 23 25 13 7 27 22 30 1 C 26 24
34 31 35 33 16 13 17 21 25 4 5 10 22 27 11 28 14 30 1 29 7 8 9 12 3 23 2
20 6 19 15 32 18 D 8 14 10 18 33 6 26 32 31 3 11 29 27 20 19 24 9 2 1 34
22 15 4 7 12 28 35 17 30 13 23 21 25 16 5 1