

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

- 1) Robinson spends all his income on mangos and bananas. Mangos cost \$3 per pound and bananas cost \$1 per pound. The marginal utility is 24 for the last pound of mangos purchased and 10 for the last pound of bananas. To maximize his utility, Robinson should
 - A) buy the present combination of goods.
 - B) buy more mangos and fewer bananas.
 - C) buy only mangos.
 - D) buy more bananas and fewer mangos.

- 2) Which one of the following statements about the budget deficit or surplus over the business cycle is correct?
 - A) When the economy is in recession the budget surplus tends to increase.
 - B) When GDP decreases, the budget deficit tends to decrease.
 - C) Automatic fluctuations in the budget deficit act as automatic stabilizers.
 - D) When the economy is in an expansion, the budget deficit tends to increase.

- 3) Two investment opportunities are available. Opportunity A has a chance of a +10 percent return and a -10 percent return, each with a 50 percent probability. Opportunity B also has a chance of a +10 percent return and a -10 percent return, each with a 50 percent probability. The returns on the two opportunities are independent. If one invests \$1 in opportunity A and \$1 in opportunity B, the probability of incurring a 10 percent gain is _____; if one invests \$2 in opportunity A, the probability of incurring a 10 percent gain is _____.
 - A) 25 percent; 50 percent
 - B) 50 percent; 25 percent
 - C) 50 percent; 50 percent
 - D) 0 percent; 0 percent

- 4) Unemployment caused by people voluntarily leaving their jobs is classified as
 - A) frictional unemployment.
 - B) part-time unemployment.
 - C) seasonal unemployment.
 - D) cyclical unemployment.

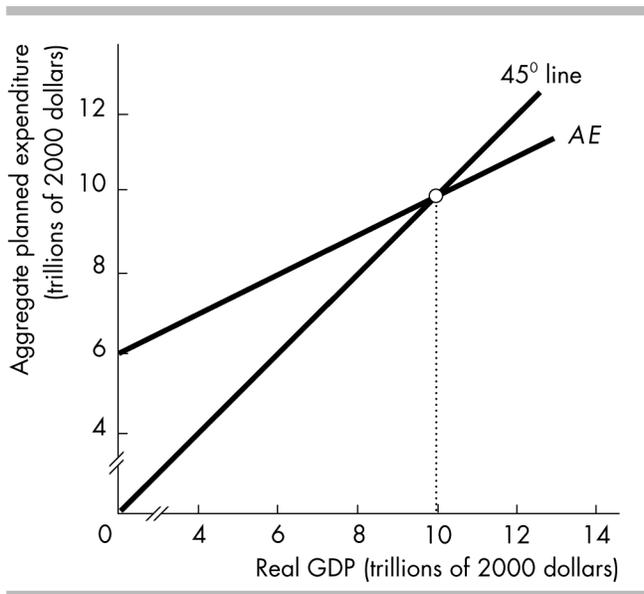
- 5) Which of the following is true regarding the effect expected future income has on saving?
 - I) As expected future income increases, saving increases.
 - II) Young people typically save very little.
 - III) Middle aged people, earning higher incomes, are not very big savers.
 - A) I and III
 - B) II and III
 - C) III only
 - D) II only

- 6) Assume that there is an increased demand in the United States for French wines. If all other factors are held constant, this change will result in
 - A) an appreciation of the dollar.
 - B) an increase in the exchange rate for francs.
 - C) a movement along the demand curve for French francs.
 - D) a decrease in the value of the franc.

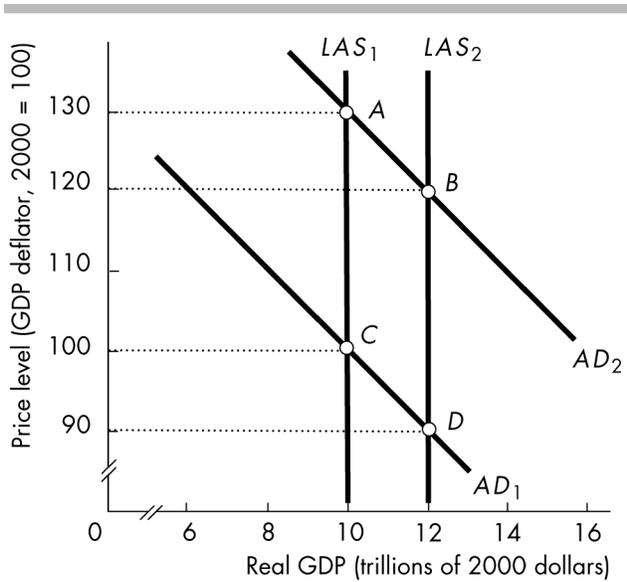
- 7) Which of the following is true regarding the long run for a firm in monopolistic competition?
 - A) $P = MC = MR$
 - B) $P = MC = ATC$
 - C) $P = ATC$
 - D) $ATC = MC = MR$

- 8) We observe that both the equilibrium price of 35mm cameras and the equilibrium quantity of cameras have decreased. Which of the following events could be responsible for this?
- A) The price of digital cameras fell.
 - B) The price of 35mm films fell.
 - C) A technological advance lowered 35mm camera production costs.
 - D) Consumers' income rose and 35mm cameras are a normal good.
- 9) Homer's Holesome Donuts has determined that its profit-maximizing quantity is 10,000 donuts per year. Homer's earns \$12,000 in revenue from the sale of those donuts. Homer's has two costs. First he pays \$16,000 in annual rental payments for its five-year lease on its store. Second Homer incurs an additional cost of \$5,000 for ingredients. Should Homer's exit the industry in the long run?
- A) No, because he is earning an economic profit.
 - B) Yes, because he is earning an economic loss.
 - C) Yes, because all costs are fixed in the long run.
 - D) No, because all costs are variable in the long run.
- 10) Suppose that the nominal quantity of money (M) is \$200 billion and the value of aggregate output (PY) is \$1 trillion. It must be the case that
- A) there will be a shortage of money balances in the economy.
 - B) the average price paid for a "typical" good is \$5.
 - C) the economy is suffering from inflation.
 - D) the velocity of circulation is 5.
- 11) According to new growth theory, technological change is driven by
- A) random chance.
 - B) firms' attempts to increase their profit.
 - C) foreign firms' attempts to increase their sales in the domestic market.
 - D) government policies.
- 12) Which of the following statements is true?
- A) Perfectly competitive markets always reach equilibrium but monopoly markets never reach equilibrium.
 - B) Perfectly competitive markets are efficient, but monopoly markets never are.
 - C) Perfect price discriminating monopolists can eliminate all deadweight losses and achieve efficiency.
 - D) All the above statements are true.
- 13) The production possibilities frontier bows outward because
- A) resources are of uniform quality.
 - B) opportunity costs are increasing as the production of a good increases.
 - C) opportunity costs are fixed as the production of a good increases.
 - D) opportunity costs are decreasing as the production of a good increases.
- 14) Countries with high inflation rates also tend to have
- A) high real interest rates and high nominal interest rates.
 - B) high nominal interest rates.
 - C) no clear relationship between inflation and interest rates.
 - D) high real interest rates.

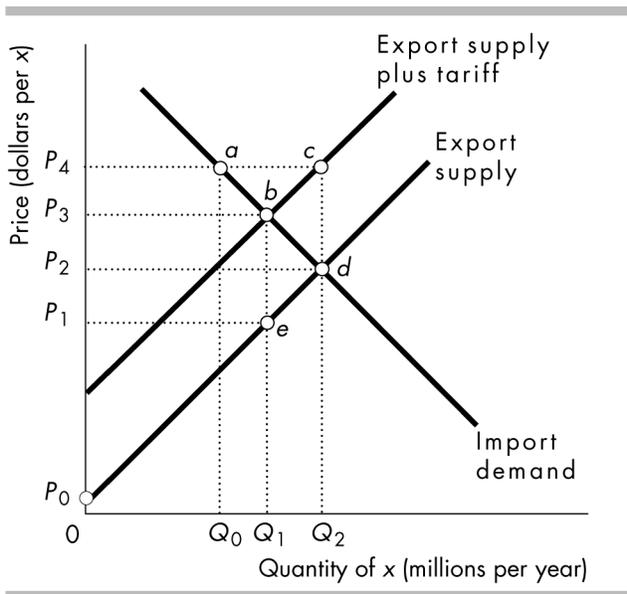
- 15) If the required reserve ratio is doubled, the money multiplier
- A) is increased but does not double. B) is doubled.
 C) is decreased. D) stays the same.
- 16) If a 20 percent decrease in the price of a good leads to a 15 percent increase in the quantity demanded, then demand is _____ and total revenue will _____ as a result of the fall in price.
- A) inelastic; increase B) inelastic; decrease C) elastic; decrease D) elastic; increase
- 17) When your hourly wage rises from \$20 to \$25 per hour you work 5 hours less per week. Which of the following statement is true?
- A) The income effect of wage increase is greater than the substitution effect.
 B) The substitution effect of the wage increase is greater than the income effect.
 C) Your labor supply curve is backward bending in \$20 to \$25 wage range.
 D) Both answers A and C are correct.
- 18) Suppose that there are 10 firms in an industry, each accounting for 10 percent of industry sales. Two of these firms decide to merge. Which of the following statements about the impact of this merger are incorrect?
- A) The merger will not change the HHI unless the industry's sales increase.
 B) The merger causes the four-firm concentration ratio to increase from 40 to 50.
 C) The merger causes the HHI to increase by 100.
 D) Both answers A and C are incorrect.



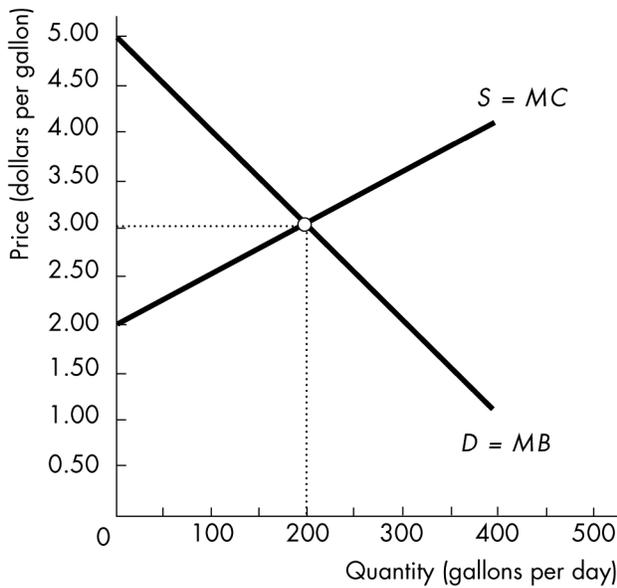
- 19) In the figure above, the multiplier equals
- A) 10.0.
 B) 0.5.
 C) 2.5.
 D) some amount that cannot be calculated without additional information.



- 20) In the above figure, assume that the economy is at point *B*. According to the real business cycle theory, a negative shock to productivity will move the economy to a point such as _____ as real _____.
- A) *A*; interest rates fall B) *D*; interest rates fall C) *C*; interest rates rise D) *D*; interest rates rise



- 21) The above figure shows the international market for some good "x". Suppose a tariff is imposed by the governments of importers of x. The amount of tariff revenue is shown as
- A) *ebcd*. B) P_2dcP_4 . C) P_1P_3be . D) $0P_3bQ_1$.



- 22) The figure above shows the market for milk. If one firm owns all the milk outlets in the city and sells 100 gallons of milk,
- A) there is a deadweight loss because the marginal benefit from milk exceeds the marginal cost of it.
 - B) there is a deadweight loss because the marginal cost of milk exceeds the marginal benefit from it.
 - C) the market is efficient because the marginal benefit from milk exceeds the marginal cost of it.
 - D) the market is efficient because the total benefits from milk exceed the total costs.



- 23) The above figure shows the market for anti-freeze. The government imposes a sales tax on sellers. Anti-freeze sellers would pay a larger part of this tax than what is shown in the figure if
- A) the supply were more elastic.
 - B) the demand were more inelastic.
 - C) the supply were more inelastic.
 - D) the demand curve was steeper.

Component	Amount (billions of dollars)
Personal consumption expenditure	3,720
Government purchases	430
Gross investment	610
Net investment	520
Exports	650
Imports	720

24) Using the information in the table above, depreciation equals

- A) -\$70 billion.
- B) -\$90 billion.
- C) \$90 billion.
- D) some amount that cannot be determined.

Price level	Aggregate demand (trillions of 2000 dollars)	Short-run aggregate supply (trillions of 2000 dollars)	Long-run aggregate supply (trillions of 2000 dollars)
100	11	7	10
110	10	8	10
120	9	9	10
130	8	10	10
140	7	11	10

25) Based on the data in the table above in the adjustment towards the long-run equilibrium

- A) the aggregate demand curve will shift leftward.
- B) the short-run aggregate supply curve will shift leftward.
- C) money wage rates will rise.
- D) the short-run aggregate supply curve will shift rightward.