

Name: _____

Part I: Multiple Choice (60 points)

Read each question carefully and select the most appropriate response. Circle the appropriate letter of the response and fill in the corresponding circle on your answer sheet.

1. Suppose the adult population is 205 million, the number employed is 140 million, and the number unemployed is 10 million. The unemployment rate is approximately _____, while the labor force participation rate is _____.
 - a) 6.7%; 73.2%
 - b) 7.1%; 68.3%
 - c) 4.9%; 73.2%
 - d) 63.4%; 68.3%

2. If both demand and supply increase then
 - a) equilibrium price will definitely increase.
 - b) equilibrium price will definitely decrease.
 - c) equilibrium quantity will definitely increase.
 - d) equilibrium quantity will definitely decrease..

3. The market tends to underproduce public goods because
 - a) the consumption of a public good by one persons prevents its consumption by another person.
 - b) public goods tend to have very few benefits.
 - c) public goods always have external costs (negative externalities).
 - d) joint consumption allows those who do not pay for the good to still benefit from the good.

4. Which of the following would cause the unemployment rate to RISE in Central New York?
 - a) a time limit on welfare benefits forces many who were not looking for work to now look for work.
 - b) SUNY Oswego lays off 100 professors, who all take jobs in the retail sector.
 - c) the City of Syracuse offers free job training to those trying to find work.
 - d) all of the above would cause the unemployment rate to rise.

5. The current rate of inflation (as measured by the CPI) in the United States is approximately
 - a) 1%
 - b) 3%
 - c) 5%
 - d) 7%

6. In general state and local taxes tend to be
 - a) regressive.
 - b) progressive.
 - c) proportional.
 - d) flat.

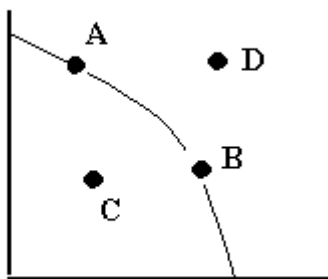
7. Which of the following contributes to the high productivity of American workers?
 - a) Limited infrastructure investment, which leaves funding for other activities.
 - b) A highly skilled labor force.
 - c) An equitable income distribution.
 - d) All of the above.

8. Which of the following groups tends to have the LOWEST unemployment rate?
 - a) Hispanic teenagers.
 - b) White females age 16-19.
 - c) Black females.
 - d) White male college graduates.

9. The Consumer Price Index
- measures the prices of all goods and services in the GDP.
 - does not measure the prices of imported goods and services.
 - tends to overstate the inflation rate.
 - both b and c.
 - all of the above.
10. When rising oil prices lead to overall inflation in the economy, this is an example of
- deflation.
 - demand-pull inflation.
 - hyperinflation.
 - cost-push inflation.
11. If GDP grows faster than the population of a country then
- GDP per capita will fall.
 - GDP per capita will rise.
 - GDP per capita will stay the same.
12. The natural rate of unemployment
- is zero.
 - is when frictional and structural unemployment are zero, but some cyclical unemployment remains.
 - is when cyclical unemployment is zero, but some frictional and structural unemployment remain.
 - changes over time, depending on demographics and technology.
 - both c and d.
13. Consider the market for gasoline. If we observe that the price of gasoline has risen, then
- both the demand and supply of gas have risen.
 - both the demand and supply of gas have fallen.
 - the demand for gas has risen and/or the supply of gas has fallen.
 - the demand for gas has fallen and/or the supply of gas has risen.

Use the diagram below to answer questions 14 and 15.

radios



umbrellas

14. Which point is both possible and preferred by music lovers?
- A
 - B
 - C
 - D
15. At which point is it possible to produce more umbrellas without giving up any radios?
- A
 - B
 - C
 - D

16. Suppose firms in Colorado dump waste into the Colorado River and as a result people in California and Mexico cannot use the water. This is an example of
- a public good.
 - inequity.
 - market power.
 - an externality.
17. Which of the following will shift the demand for pizza in Oswego to the right?
- an increase in price of pizza.
 - a decrease in the price of Chinese food.
 - an increase in the population of Oswego.
 - a property tax increase in the City of Oswego.
18. The value of GDP can be found by adding together
- wages, consumption, investment, and imports.
 - government purchases, consumption, net exports, and investment.
 - consumption, government purchases, transfer payments, and net exports.
 - wages, investment, government purchases, and depreciation.
19. A surprise increase in inflation
- hurts both borrowers and lenders as interest rates fall.
 - hurts lenders but benefits borrowers who borrowed at a fixed interest rate.
 - does not affect people on a fixed income
 - both a and c.
20. Which of the following would be included in GDP?
- a Honda Accord made in Ohio.
 - a pair of Levi's Jeans made in the Honduras.
 - Dr. Dunne Schmitt doing her family's laundry.
 - cash tips which a waiter does NOT report to the IRS.

Part II: Short Answer (40 points)

Answer each question in the space provided. **Show all of your work for proper credit!**

1. Use the table below to answer the following questions.

Year	nominal salary	real salary	CPI
1991	\$35,000	?	135
1992	\$36,000	\$25,993	?
1993	?	\$26,224	143

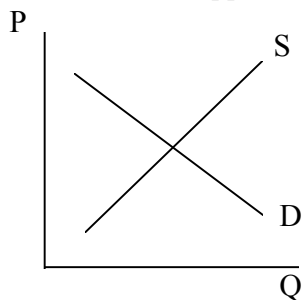
- Fill in the spaces in the table above
- Calculate the rate of inflation between 1992-1993.

- c) Given the real and nominal salaries in this table, is this person better off in 1993 relative to 1991? Explain your answer.

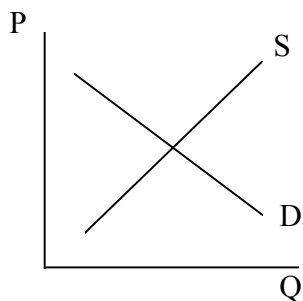
2. Describe the difference between structural and frictional unemployment. Which is more serious, and why?

3. For each question below (1) **use the graph** to demonstrate the shifts in the supply/demand curves and (2) **write** the change in the equilibrium price and quantity in the space provided.

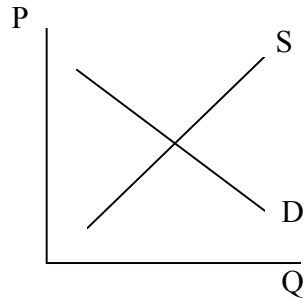
- a) What will happen to the market for leather sandals if global warming raises the average temperature?



- b) What will happen to the market for textbooks if the price of paper rises?



- c) What will happen to the market for peanut butter if (1) the peanut crop is devastated by disease and (2) the price of grape jelly rises.



4. The table below contains all goods produced in Examland for each year, along with their prices.

year	books		pencils	
	P	Q	P	Q
1994	\$15	100	\$.10	220
1995	\$18	93	\$.12	215

- a) Calculate nominal and real GDP for 1994 and 1995, using 1995 as a base year.
- b) What is the percentage change for nominal GDP from 1994-95? For real GDP?
- c) Which of your answers in (b) represents a measure of the change in production only? Why?

1. A	5. B	9. C	13. C	17. C
2. C	6. A	10. D	14. A	18. B
3. D	7. B	11. B	15. C	19. B
4. A	8. D	12. E	16. D	20. A

1. (a) 1991 real salary = $(35000/135) \times 100 = 25926$; 1992 CPI = $(36000/25993) \times 100 = 138.5$; \
 1993 nominal salary = $(26224)(143/100) = 37,500$
 (b) inflation 1992-93 = $[(143-138.5)/138.5] \times 100 = 3.25\%$
 (c) this person is better off, because her real income has risen, so she is earning more even after you account for inflation.
2. Structural unemployment is caused by a mismatch between the skills of the job seekers and the skills in demand by employers. Frictional unemployed is caused by the time it takes to match people to jobs, even though they have the right skills. Structural unemployment is more serious because it is a long-term problem that can only be solved through retraining or relocation of workers.
3. (a) The demand for sandals increases (shifts right), so both price and quantity rise.
 (b) The supply of textbooks decreases (shifts left), so price rises, but quantity falls.
 (c) The supply of peanut butter decreases, and the demand for peanut butter decreases (jelly is a complement) so quantity falls, but the effect on price is uncertain.
4. (a) 1994 nominal GDP = $(15)(100) + (.10)(220) = 1522$; real GDP = $(18)(100) + (.12)(220) = 1826$
 1995 nominal GDP = 1995 real GDP = $(18)(93) + (.12)(215) = 1700$
 (b) % change in nominal GDP = $[(1700-1522)/1522] \times 100 = 11.7\%$;
 % change real GDP = $[(1700-1826)/1826] \times 100 = -6.9\%$
 (c) real GDP measures the change in production because it holds price constant and only measures change in quantity