



Soochow University, Winter Session I, 2021

ECON202 (Dr. Lei Pan)

Quiz 1 Solution

Due Sunday, December 19 2021 at 5:00pm Taipei Time

Multiple Choice Questions [Total = 100 marks]

Choose ONE of the best answers for each of the following questions. Each question is worth 4 marks.

Question 1. [4 marks] The main reason that the United States has such a high standard of living is

- A. low unemployment
- B. high average labor productivity
- C. low inflation
- D. high government budget deficits

Answer B

Question 2. [4 marks] Short-run contractions and expansions in economic activity are called

- A. recessions
- B. expansions
- C. deficits
- D. the business cycle

Answer D

Question 3. [4 marks] The most direct effect of an increase in the growth rate of average labor productivity would be an increase in

- A. the inflation rate
- B. the unemployment rate

C. the long-run economic growth rate

D. imported goods

Answer C

Question 4. [4 marks] Before World War II, the average level of prices in the United States usually

A. fell during wartime and rose during peacetime

B. fell during wartime and fell during peacetime

C. rose during wartime and fell during peacetime

D. rose during wartime and rose during peacetime

Answer C

Question 5. [4 marks] Many people perceive erroneously that most macroeconomists spend a lot of time engaged in

A. forecasting

B. macroeconomic research

C. macroeconomic analysis

D. data development

Answer A

Question 6. [4 marks] Prices that do not always adjust rapidly to maintain equality between quantity supplied and quantity demanded are

A. administered prices

B. sticky prices

C. regulatory prices

D. market prices

Answer B

Question 7. [4 marks] A set of ideas about the economy that have been organized in a logical framework is called

- A. empirical analysis
- B. a methodology
- C. economic theory
- D. data development

Answer C

Question 8. [4 marks] The two most comprehensive, widely accepted macroeconomic models are

- A. the classical model and the supply-side model
- B. the supply-side model and the real business cycle model
- C. the classical model and the Keynesian model
- D. the Austrian model and the Keynesian model

Answer C

Question 9. [4 marks] Gross domestic product measures

- A. the total spending of everyone in the economy
- B. the value of all output in the economy
- C. the total income of everyone in the economy
- D. all of the above

Answer D

Question 10. [4 marks] Which of the following is an example of a final good or service?

- A. wheat a bakery purchases to make bread
- B. coffee beans Starbucks purchases to make coffee
- C. lumber purchased by a construction company to be used in building houses
- D. a computer purchased by Federal Express to track shipments

Answer D

Question 11. [4 marks] Double counting can be avoided by

- A. including the value of intermediate goods in the current year
- B. not counting the value of intermediate goods in GDP
- C. including the value of intermediate goods in the GNP but not in the GDP
- D. including the value of intermediate goods in the production year but not in the selling year of those goods

Answer B

Question 12. [4 marks] If an economy produced 10 pizzas at \$20 each and fifteen gallons of root beer at \$5 each, the total value of these goods and services would be

- A. \$75
- B. \$200
- C. \$275
- D. \$2,750

Answer C

Question 13. [4 marks] The single largest expenditure component in GDP is

- A. government spending
- B. investment
- C. consumption

D. net exports

Answer C

Question 14. [4 marks] A farmer buys a new tractor from John Deere to use on her cotton farm. This tractor is included in GDP as

A. part of gross private domestic investment

B. a durable consumption good

C. a service

D. a nondurable consumption good

Answer A

Question 15. [4 marks] The formula $C + I + G + NX$ is the _____ to calculating GDP.

A. income approach

B. value-added approach

C. expenditure approach

D. only accurate approach

Answer C

Question 16. [4 marks] The only component of GDP which can have a negative value is

A. government spending

B. consumption expenditures

C. private investment expenditures

D. net exports

Answer D

Question 17. [4 marks] Real GDP is gross domestic product measured

- A. at a constant output level but at current prices
- B. in current dollars
- C. in the prices of a base year
- D. as the difference between the current year's GDP and last year's GDP

Answer C

Question 18. [4 marks] The decrease in the demand for mainframe computers caused manufacturers of mainframe computers to reduce prices by 20%. This is an example of

- A. inflation
- B. deflation
- C. a sustained inflation
- D. the operations of supply and demand

Answer D

Question 19. [4 marks] If period 1 is the base year, the bundle price of goods in period 1 is \$300, and the bundle price of goods in period 2 is \$320, the period 2 price index is

- A. 93.3
- B. 93.8
- C. 106.2
- D. 106.7

Answer D

Question 20. [4 marks] If the price index in period 2 is 109 and the price index in period 3 is 125, the rate of inflation between period 2 and period 3 is

- A. 16.0%

B. 14.7%

C. 9.0%

D. 8.7%

Answer B

Question 21. [4 marks] The index used most often to measure inflation is the

A. producer price index

B. consumer price index

C. wholesale price index

D. GDP deflator

Answer B

Question 22. [4 marks] Which of the following statements is *false*?

A. One problem with any fixed-bundle index as a measure of the cost of living is that it does not account for substitutions that consumers might make in response to price changes.

B. The producer price index is considered to be a leading indicator of future inflation rates.

C. The best overall indicator of inflationary pressures in the economy is the GDP deflator.

D. The consumer price index somewhat understates changes in the cost of living.

Answer D

Question 23. [4 marks] The broadest-based price index available is the

A. GDP deflator

B. producer price index

C. consumer price index

D. wholesale price index

Answer A

Question 24. [4 marks] The difference between the interest rate on a loan and the inflation rate is the

A. nominal interest rate

B. inflation premium

C. real interest rate

D. expected interest rate

Answer C

Question 25. [4 marks] When unanticipated inflation occurs regularly, the degree of risk associated with investments in the economy

A. increases

B. decreases

C. remains stable

D. falls to zero

Answer A