

**Brigham Young University Department of Economics**  
**Economics 110 – Principles of Economics**  
**Professor Kerk Phillips - Winter Semester 2002, section 4**

**Final Exam**

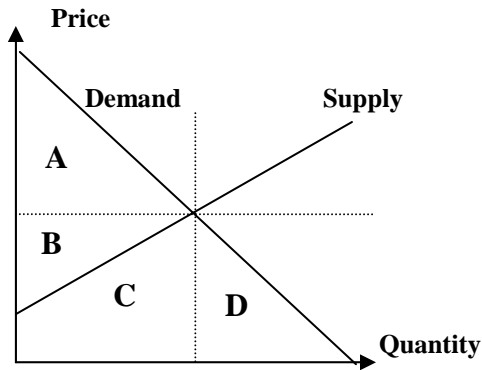
4/20, 4/22-4/25 Testing Center

This test is multiple choice, fill out your answers on the scantron sheet and do not write on this exam. The test is closed book and closed notes, but there is no time limit. You must also have a calculator for some of the problems. Read each question carefully before answering and follow the directions. If you feel there is more than one correct answer, mark the one which is most correct.

Frog Legs	0	10	20	30	40	50
Chicken Wings	150	140	110	80	50	0

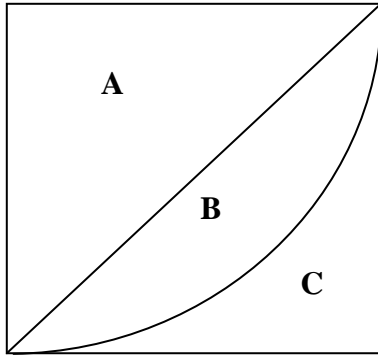
1. Given the PPF above, the combination of 20 units of frog legs and 120 units of chicken wings is:
  - a) efficient
  - b) inefficient
  - c) optimal
  - d) impossible**
  - e) none of the above
  
2. The combination of 30 units of frog legs and 80 units of chicken wings is:
  - a) efficient**
  - b) inefficient
  - c) optimal
  - d) impossible
  - e) none of the above
  
3. The combination of 10 units of frog legs and 120 units of chicken wings is:
  - a) efficient
  - b) inefficient**
  - c) optimal
  - d) impossible
  - e) none of the above
  
4. Which of the following is NOT commonly used as a factor of production:
  - a) Capital
  - b) Land
  - c) Labor
  - d) Consumer Nondurables**
  - e) All of the above are commonly used factors

5. The Latin phrase *ceteris paribus* means:
- Let the buyer beware
  - All else equal**
  - Not in my backyard
  - Efficient, but not optimal
  - none of the above
6. If consumer incomes rise by 5% and all else equal the quantity demanded of tortillas falls by 2%, then tortillas are:
- income normal
  - income inferior**
  - luxury goods
  - Giffen goods
  - none of the above
7. If the price of tortillas rises by 10% and all else equal the quantity demanded of tortillas falls by 35%, then the own price elasticity of demand for tortillas is:
- 0
  - 1
  - 2
  - 3
  - none of the above 3.5**
8. If the price of cinnamon rolls rises by 30% and all else equal the quantity demanded of tortillas rises by 5%, then cinnamon rolls and tortillas are:
- substitute goods**
  - compliments
  - inferior goods
  - Giffen goods
  - none of the above
9. Starting from an unrestricted market equilibrium, the imposition of a binding minimum wage on BYU student employees would result in:
- greater social welfare
  - a lower marginal cost of labor to BYU departments that hire students
  - fewer jobs, but higher wages for those who get them**
  - more jobs and higher wages for those who get them
  - none of the above
10. Suppose that the BYU bookstore was the sole source of textbooks for BYU students and it behaved as a monopolist. With the entry of online booksellers the bookstore would be forced into a competitive market. This should result in:
- fewer books sold, but at a lower price
  - more books sold at a lower price**
  - fewer books sold and at higher prices
  - more books sold at higher prices
  - none of the above



11. In the above illustration of market equilibrium, consumer surplus is best described as:
- area A**
  - area B
  - area A+B
  - area B+C
  - none of the above
12. Producer surplus is:
- area A
  - area B**
  - area A+B
  - area B+C
  - none of the above
13. Suppose a watch firm faced fixed costs of \$50,000 and a constant marginal cost of \$10 per unit produced. If the price of watches were \$9 then in the short-run profit to the firm would be:
- \$50,000, the firm cannot cover variable cost and should shut down.**
  - \$0
  - \$40,000
  - infinite
  - none of the above
14. If we know the cost curves a firm faces, then we know supply because supply can be defined as:
- average total cost
  - marginal cost
  - marginal cost above average fixed cost**
  - average fixed cost
  - none of the above
15. Which of the following is not a characteristic of perfect competition:
- many sellers
  - many buyers
  - no distortionary taxes
  - complete information available to all participants
  - all of the above are characteristics of perfect competition.**

16. The price system does not always function well in the provision of public goods, such as national defense. One explanation for this failure is because:
- a) it is easy to determine the benefits of public goods
  - b) one of the three basic questions of economics is not involved
  - c) **it is difficult to prevent nonpayers from enjoying the benefits of the public good**
  - d) the supply of public goods typically exceeds their demand
  - e) none of the above
17. Which of the following is the best example of a market failure?
- a) Water costs less than gold, even though gold is less of a necessity for life
  - b) **If only sellers know the quality of used cars, then only bad used cars are offered for sale**
  - c) Professional basketball players have higher salaries than school teachers
  - d) There are many manufacturers of PC's which drives up costs since they duplicate unnecessary expenses, such as advertising
  - e) None of the above are good examples
18. The loss in consumer or surplus due to a policy shift that is not captured by some other agent in the economy is referred to as:
- a) a market failure premium
  - b) a Pareto failure
  - c) an efficiency loss
  - d) **a deadweight loss**
  - e) none of the above
19. Oligopoly is:
- a) A market structure with only one buyer
  - b) A market structure with heavily regulated sellers
  - c) **A market structure with only a few, but more than one, sellers**
  - d) A market structure with only a few, but more than one, buyers
  - e) None of the above
20. If the Gini coefficient for U.S. income is .41 and the Gini coefficient for Swedish income is .25, then which country has the **least unequal** distribution of income?
- a) U.S.
  - b) **Sweden**
  - c) Both have identical inequality
  - d) They are different, but it's impossible to tell which is lower
  - e) None of the above



21. Using the Lorenz curve illustrated above, the Gini coefficient is defined as the following ratio of areas:
- $A/(A+B+C)$
  - $B/(B+C)$**
  - $B/C$
  - $C/(B+C)$
  - None of the above
22. Suppose the following information were available from the International Monetary Fund on the economy of Zalchistan:
- | End of Year | value of CPI |
|-------------|--------------|
| 1998        | 101.3        |
| 1999        | 102.9        |
| 2000        | 104.1        |
| 2001        | 105.5        |
- Inflation in 2000 was:
- 0.78%
  - $1.17\% = (104.1-102.9)/104.1$**
  - 1.34%
  - 1.58%
  - none of the above
23. Which of the following is NOT a commonly used method of calculating GDP?
- Expenditure Method
  - Income Method
  - Valued-Added Method
  - Factor Supply Method**
  - None of the above

24. Suppose that Zalchistan reported the following statistics:
- |                         |                    |
|-------------------------|--------------------|
| Private consumption     | 56 billion zotneys |
| Private investment      | 13 billion zotneys |
| Increase in inventories | 0                  |
| Government purchases    | 9 billion zotneys  |
| Exports                 | 21 billion zotneys |
| Imports                 | 15 billion zotneys |
- What is GDP in Zalchistan?
- a) 72 billion zotneys  
b) 78 billion zotneys  
**c) 84 billion zotneys  $56+13+9+(21-15)$**   
d) 114 billion zotneys  
e) none of the above
25. Suppose that nominal GDP in Zalchistan was 98 billion zotneys in 2001 and it grows to 115 billion zotneys in 2002. Further suppose prices in Zalchistan rise by 10% in 2002. Then the growth of real GDP would be:
- a) approximately zero  
**b) approximately 7.3% =  $(115-98)/98 - 10%$**   
c) approximately 15.9%  
d) it cannot be calculated with the given information  
e) none of the above
26. Which of the following is measured by standard GDP methods?
- a) illegal activity  
b) household production  
c) consumption of leisure time  
d) informal barter between neighbors  
**e) none are measured**
27. Investment demand is primarily driven by the behavior of \_\_\_\_\_, while savings supply is primarily driven by the behavior of \_\_\_\_\_.
- a) firms, firms  
**b) firms, households**  
c) households, firms  
d) households, governments  
e) none of the above
28. Suppose the growth of real GDP in Zalchistan was 20%, while growth of the capital stock was 4% and the labor force grew by 1%. With a capital share in GDP of 33% these figures imply that utilized technology grew at an approximate rate of:
- a) 20%  
**b) 18% =  $20\% - .67*1\% - .33*4\%$**   
c) 15%  
d) it cannot be calculated with the given information  
e) none of the above

29. Historically, since the end of World War II, growth accounting shows that the major contributor to growth in GDP has been:
- growth of the capital stock
  - growth of the labor force
  - growth of technology**
  - growth accounting does not address this issue
  - none of the above
30. Which of the following will shift the aggregate demand curve to the right?
- an increase in the money supply**
  - an increase in the government budget surplus
  - a decrease in oil prices
  - a decrease in consumer confidence
  - none of the above
31. Which of the following will shift the short-run aggregate supply curve down?
- an increase in the money supply
  - an increase in the government budget surplus
  - a decrease in oil prices
  - a decrease in consumer confidence
  - none of the above**
32. The natural rate of unemployment is:
- the rate of unemployment one would expect in the wild
  - the rate of unemployment we observe during a bad recession
  - zero
  - the rate of unemployment when the number of available jobs matches the number of people seeking a job**
  - none of the above
33. In our favorite country of Zalchistan the central bank reports the following:
- |                            |                    |
|----------------------------|--------------------|
| Currency in circulation    | 5 billion zotneys  |
| Demand Deposits            | 3 billion zotneys  |
| Other Checkable Deposits   | 4 billion zotneys  |
| Traveler's Checks          | 0                  |
| Time Deposits              | 9 billion zotneys  |
| Money Market Fund Accounts | 15 billion zotneys |
- M1 is Zalchistan is:
- 8 billion zotneys
  - 12 billion zotneys = 5+3+4**
  - 21 billion zotneys
  - 36 billion zotneys
  - none of the above
34. Which of the following is NOT an example of fiat money?
- Dollar coins
  - Federal Reserve Notes (currency)
  - Checking Account Deposits**
  - Dimes
  - All of the above are fiat money

35. The Fed controls the money supply primarily by:"
- conducting open market purchases or sales of US treasury securities (bonds & bills)**
  - manipulating the reserve requirement for demand deposits
  - changing the interest rate they charge member banks that borrow from the Fed
  - conducting meetings with congress and releasing the testimony in an attempt to sway public opinion
  - None of the above
36. Which of the following individuals is not a permanent member of the Fed's Open Market Committee?
- Chairman of Board of Governors
  - The other six members of the Board of Governors
  - Secretary of the Treasury**
  - President of the New York Federal Reserve Bank
  - All are permanent members
37. Suppose there are no cash leakages in the money creation process and the Fed injects 20 million dollars of new reserves into the banking system. The long-run increase in the money supply will be:
- \$20 million
  - \$100 million
  - \$10 billion
  - cannot tell with the given information, we need the reserve requirement**
  - none of the above
38. The current chairman of the Federal Reserve is:
- Dick Cheney
  - Paul Volcker
  - Robert Rubin
  - Merrill Bateman
  - None of the above**
39. Currently nominal GDP in the United States is close to:
- 3 trillion dollars per year
  - 5 trillion dollars per year
  - 10 trillion dollars per year (this was 2002, remember)**
  - 25 trillion dollars per year
  - none of the above are even close
40. A Keynesian model of business cycles relies on which of the following for a source of shocks?
- oil price changes
  - changes in tax rates
  - changes in consumer confidence**
  - unexpected changes in the money supply
  - none of the above

41. According to Keynesians a recession can be reversed by:
- the use of moral persuasion
  - reducing the money supply
  - freezing prices so they cannot change
  - increasing the government budget deficit**
  - none of the above
42. A Classical model of the business cycle relies on which of the following source of shock?
- changes in consumer confidence
  - “animal spirits”
  - money supply changes
  - changes in technology or oil prices**
  - none of the above
43. According to classical adherents, a recession can be reversed by:
- the use of moral persuasion
  - reducing the money supply
  - freezing prices so they cannot change
  - increasing the government budget deficit
  - none of the above**
44. The federal government gets the bulk of its revenue from:
- personal income taxes**
  - sales taxes
  - voluntary contributions
  - property taxes
  - none of the above
45. In international trade, dumping is defined as:
- disposing of excess goods by giving them away for free
  - selling goods in a foreign market at a price below that in the country where they are produced
  - selling goods at a price below cost
  - both b & c**
  - none of the above
46. Which of the following “dead economists” were contemporaries?
- Smith & Keynes
  - Ricardo & Marshall
  - Marx & Schumpeter
  - Ricardo & Malthus**
  - None of these pairs are contemporaries
47. Keynes wrote his most important works in:
- the 1930's**
  - the United States
  - India
  - his bathroom
  - none of the above

48. Which of the following were not British?
- a) Adam Smith
  - b) Alfred Marshall
  - c) John Maynard Keynes
  - d) Milton Friedman**
  - e) All were British
49. Which of the following argued that most people were doomed to live in or near poverty because whenever the economy produced more, people would simply have more children?
- a) David Ricardo
  - b) Thomas Malthus**
  - c) Karl Marx
  - d) Jeremy Bentham
  - e) None of the above
50. Which of the following schools of economic thought is the most recent?
- a) Marxism
  - b) Keynesianism
  - c) Rational Expectations**
  - d) Classical economics
  - e) All are roughly the same age