

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

Midterm #3 key

(answers at the end)

3/18 - 3/19 Testing Center

3/20 with Late Fee

This test is multiple choice, fill in your answers on the scantron sheet and do not write on this exam. It is closed book and closed notes. There is no time limit and you may use the calculators provided by the testing center if you wish. Read all questions carefully before answering. If you feel that more than one answer is or could be correct, then mark the one which is most correct.

1) If every seller were disreputable and consumers could not determine the quality of good X without using X, it is likely that

- A) only the highest qualities of good X would sell in the market.
- B) only average qualities of good X would trade.
- C) only the lowest qualities of good X would trade.
- D) good X would not trade at all.
- E) None of the above

2) Which of the following best describes hedging?

- A) An agreement to purchase the product or good now and take delivery in the future.
- B) The temporary substitution of a futures market transaction for an intended spot market purchase or sale.
- C) Buying the product in one location and selling it in another location.
- D) An agreement between buyer and seller for payment and delivery of the product now.
- E) None of the above

3) The marginal revenue product of a productive factor equals

- A) marginal revenue times the marginal physical product.
- B) the decrease in revenue generated by one more unit of the factor.
- C) its marginal physical product.
- D) the marginal revenue from the last unit of output produced by a factor.
- E) None of the above

Table 16-1

PRICE/UNIT	OUTPUT	LABOR
\$3	20	1
3	35	2
3	45	3
3	50	4

4) Table 16-1 shows the production function for a firm. Assume that this firm can sell all the products it wants for \$3 per unit. The marginal physical product of the fourth worker is

- A) 50 units.
- B) 15 units.
- C) 5 units.
- D) 0 units.
- E) None of the above

5) Table 16-1 shows the production function for a firm. Assume that this firm can sell all the products it wants for \$3 per unit. The marginal revenue product of the fourth worker is

- A) \$20.
- B) \$10.
- C) \$5.
- D) \$15.
- E) None of the above

6) A consumer boycott of California lettuce will

- A) increase the wages of California lettuce workers (everything else equal).
- B) increase the demand for California lettuce workers.
- C) decrease the demand for California lettuce workers as the price of California lettuce falls.
- D) have no conceivable effect on the demand for California lettuce workers.
- E) None of the above

7) Household production refers to

- A) manufactured goods produced in the home.
- B) produced goods sold to households.
- C) leisure time in the home.
- D) services such as cooking, cleaning, and child care performed in the home.
- E) None of the above

Table 19-1

Bottom percentage of families	20	40	60	80
Percentage of total U.S. income	5	15	35	65

8) Table 19-1 shows data pertaining to a Lorenz curve. According to these data, families in the second quintile from the bottom account for

- A) 5 percent of all income.
- B) 10 percent of all income.
- C) 25 percent of all income.
- D) 35 percent of all income.
- E) None of the above

9) Table 19-1 shows data pertaining to a Lorenz curve. According to these data, the families in the first 3 quintiles account for

- A) all income.
- B) 55 percent of all income.
- C) 40 percent of all income.
- D) 15 percent of all income.
- E) None of the above.

10) The more bowed the Lorenz curve is from the 45-degree line,

- A) the more equal is the distribution of income.
- B) the greater is income inequality.
- C) the greater is the share of income from labor income.
- D) the greater is the difference between labor and capital income.
- E) None of the above

11) An externality is internalized when

- A) firms producing externalities are prevented by rules from producing above certain limits.
- B) the externalities are controlled directly through mechanical devices.
- C) private prices include all external costs or benefits.
- D) marginal private costs are equal to marginal private benefits.
- E) None of the above

12) The Coase theorem states that potential externalities can be efficiently

- A) handled by public bargaining if bargaining costs are low.
- B) solved by government taxes and subsidies if bargaining costs are low.
- C) solved only by giving property rights to the externality generator.
- D) handled by private bargaining if the number of parties is small and bargaining costs are low.
- E) None of the above

13) The most general measure of the rate at which prices are changing is

- A) the CPI.
- B) the balance-of-payments index.
- C) the GDP deflator.
- D) the index of wages.
- E) None of the above

14) The consumer price index (CPI) stood at about 205 in January 1979 and rose to about 256 in November 1980. Between those two dates, construction workers' wages rose from \$9 per hour to \$10.20 per hour. During this period,

- A) the price level rose almost 25 percent.
- B) real consumer prices rose.
- C) the real wage of construction workers fell.
- D) All of the above.
- E) None of the above

15) In the base period, a market basket of goods costs \$200. In the current period, the same market basket costs \$400. The price index for the current year is

- A) 100.
- B) 200.
- C) 400.
- D) 20.
- E) None of the above

16) Industry A buys \$100 worth of products from other industries. If the sales of industry A are \$300, industry A's value added is

- A) \$400.
- B) \$300.
- C) \$200.
- D) \$0.
- E) None of the above

Table 24-1

Government Spending	\$ 50 billion
Consumption	100 billion
Exports	30 billion
Imports	30 billion
Investment	10 billion
Taxes	50 billion

17) Table 24-1 shows data from the GDP accounts of Hypothetica. Hypothetica's GDP is _____ billion.

- A) \$270
- B) \$210
- C) \$190
- D) \$160
- E) None of the above

18) Which of the following is correct? Nominal GDP is

- A) the same as "GDP in current dollars."
- B) GDP after the effects of inflation have been removed.
- C) the value of GDP in constant market prices.
- D) GDP minus depreciation.
- E) All of the above.

19) Which of the following is correct? Illegal activities

- A) have a value that is easy to estimate.
- B) are nonmarket transactions.
- C) are not included in GDP.
- D) are any economic activity that is immoral.
- E) None of the above

20) Capital markets serve the function of

- A) coordinating private and foreign savings.
- B) equating interest rates among different types of bonds.
- C) bringing together savers and businesses that wish to invest.
- D) equating personal income and personal savings.
- E) None of the above

21) Which of the following correctly completes this statement? According to Keynes,

- A) savings depends primarily on the interest rate.
- B) savings is equally influenced by the interest rate and disposable income.
- C) savings depends primarily on disposable income.
- D) savings depends primarily on the price level .
- E) None of the above

22) Demand for investment by the entire economy increases as

- A) the rate of return on investment declines.
- B) business expectations become more optimistic.
- C) the interest rate declines.
- D) the pool of available savings rises.
- E) None of the above

23) The growth rate of real GDP can be broken down into which of the following components?

- A) The growth of capital inputs.
- B) Technological progress.
- C) The growth of labor input(s).
- D) All of the above.
- E) None of the above

24) To understand the growth of average living standards, we want data on the growth rate of

- A) retail prices.
- B) wholesale prices.
- C) real GDP.
- D) real GDP per capita.
- E) None of the above

25) Suppose capital represents one-third of GDP, labor represents two-thirds and the growth of capital is one percent per year, labor input growth is six percent per year, and technological change accounts for two percent growth per year. The growth rate of real GDP is _____ percent per year.

- A) 6
- B) 5
- C) 7
- D) 5.66
- E) None of the above

26) Marshall's best know work is entitled,

- A) Wealth of People
- B) Nightyard

- C) Principles of Economics
- D) Economic Inquiry
- E) none of the above

27) Marshall was from,

- A) Britain
- B) The Netherlands
- C) Canada
- D) The United States
- E) none of the above

28) Keynes spent part of his early life in,

- A) South Africa
- B) Egypt
- C) Hong Kong
- D) India
- E) he spent his whole life in Britain

29) Keynes argued that:

- A) government spending was "bad" for the economy
- B) prices could move down easily, but not up
- C) deficit spending could stimulate an economy during a recession
- D) war was a natural result of competing economic agents
- E) none of the above

30) Keynes' ideas were timely because:

- A) he wrote them just as capitalism had begun to blossom in Europe.
- B) they coincided with and applied to the Great Depression.
- C) they were written at a time when economics as a discipline had begun to die.
- D) they were published as best sellers and raised enough money to get his family out of debt.
- E) none of the above.

- 1) C
- 2) B
- 3) A
- 4) C
- 5) D
- 6) C
- 7) D
- 8) B
- 9) E
- 10) B
- 11) C
- 12) D
- 13) C
- 14) D
- 15) B
- 16) C
- 17) D
- 18) A
- 19) C
- 20) C
- 21) C
- 22) C
- 23) D
- 24) D
- 25) A
- 26) C
- 27) A
- 28) D
- 29) C
- 30) B