Midterm Examination #1

Information/Instructions

Name_________________________
Signature ______________________
Student ID _____________________
TA___________________________
Discussion Number______________

This exam is closed book/closed notes.

You have 50 minutes to complete the exam. The exam consists of 17 multiple choice questions. The first 5 questions are each worth 1 point; the final 12 questions are each worth 2 points. **There is one extra point for correctly filling out the grade sheet, for a total of 30 points.** You must use a #2 pencil to complete the exam.

How to Fill Out the Coding Sheet

1. Print your last name, first name, and middle initial in the spaces marked “last name”, etc. Fill in the corresponding bubbles below.
2. Print your student ID number in the spaces marked “identification number.” Fill in the bubbles.
3. Write your discussion section number under “special codes” spaces ABC and fill in the bubbles.

When you are done with the exam, please remain in your seat. Raise your hand and the proctors will come to collect your answers as well as this sheet. You must show your student id when your exam is collected.
Questions

1 point each

1. The gross domestic product of the US in 2002 was approximately a: $105 billion, b: $1.05 trillion, c: $10.5 trillion, d: $10.5 billion

2. The unemployment rate in the US in 2002 was approximately a: 2.9% b: 5.9%, c: 8.9%, d: 10.9%

3. The inflation rate in the US in 2002 was approximately a: 1.6%, b: 4.6%, c: 7.6%, d: 10.6%

4. The population of the United States in 2002 was approximately a: 140 million, b: 190 million, c: 240 million, d: 290 million

5. Federal government expenditures as a percentage of gross domestic product in the US for 2002 was approximately a: 10%, b: 20%, c: 30%, d: 40%

2 points each

1. Using the income expenditure model, which will have the largest effect on output? a: a one dollar increase in government spending, b: a one dollar decrease in taxes, c: a combination of a one dollar increase in government spending and a one dollar increase in taxes, d: all have the same effect

2. Suppose that the marginal propensity to consume is .9, investment, government spending and net exports do not depend on income, and that there is a 10% tax on income. What is the government spending multiplier, according to the income expenditure model? a: approximately 2, b: approximately 4, c: approximately 5, d: approximately 10.

3. Suppose that the marginal propensity to consume is .9, investment, government spending and net exports do not depend on income, and the income tax rate is 50%. The balanced budget multiplier is a: 0, b: 1, c: 5, d: 10

4. Comparing Gross Domestic Product (GDP), Gross National Product (GNP), and Net National Product (NNP), which of the following is true: a: GDP>GNP>NNP, b: GNP>NNP>GDP, c: GNP>GDP>NNP, d: none of the above.

5. Suppose the annual nominal interest rate is 10%. A promise to pay $100 in one year with no default risk will sell for approximately a: $75, b: $80, c: $90, d: $100
6. An increase in the real rate of return on savings will a: raise current consumption, b: lower current consumption, c: have no effect on current or future consumption, d: cannot be determined a priori, i.e. without additional information.

7. If prices are fixed, then according to the short side rule a: output will be determined by the minimum of supply and demand at those prices b: output will lie in between supply and demand at those prices c: output is determined by supply, d: output is determined by demand.

8. An increase in the level of income earned by Americans overseas will a: raise GNP and NNP, b: raise GNP, NNP, and GDP, c: raise GDP only, d: have no effect on GNP, GDP, NNP

9. A reduction in current taxes combined with an increase in future taxes will a: raise current consumption and reduce future consumption, b: leave both current and future consumption unchanged, c: depend on the magnitudes of the two tax changes, d: raise both current and future consumption.

10. In the income expenditure model, the largest increase in output will be achieved by an exogenous 1 dollar change in a: investment, b: government spending, c: net exports d: any of the above.

11. The GDP accounting identity \( Y = C + I + G + NX \) implies a: an exogenous one unit increase in \( NX \) will increase equilibrium GDP by 1 unit, b: consumption and government spending are not determined by GDP, c: taxes have no effect on GDP, d: none of the above.

12. An increase in the cost of imported cars will directly affect a: the Consumer Price Index, b: the GDP deflator, c: both the CPI and GDP deflator, d: neither the CPI or GDP deflator

Trivia Bonus

1. Which Bruce Springsteen song mentions the economy? a; Thunder Road, b: Born in the USA, c: The River, d: For You

2. Which US President said: “When more and more people are thrown out of work, unemployment results.” a: Millard Fillmore, b: Calvin Coolidge, c. Bill Clinton, d: George W. Bush