I. Multiple Choice [60]

Circle the letter of the one answer that you think is correct or closest to correct.

1. The standard of living is measured by the level of
   c. income earned in producing the goods. d. production of goods per person.

2. Investment includes purchases of
   a. all types of stocks. b. newly issued stocks.
   c. new capital and all types of stocks. d. new capital.

3. GDP using the expenditure approach equals

4. To calculate GDP from the value of NDP at factor price, we have to add
   a. the value of intermediate goods and subtract the value of import.
   b. direct taxes, subtracts corporate profit, and add investment.
   c. indirect taxes, subtract subsidies, and add capital consumption.
   d. subsidies, subtract indirect taxes and capital depreciation.

5. When the economy is at full employment the
   a. natural rate of unemployment = 0. b. natural rate of unemployment = unemployment rate.
   c. natural rate of unemployment = 10%. d. unemployment rate = 0.

6. Assume that U.S. population is 300 million. If 240 million are of working age population with 150 million are employed and 6 million unemployed, what is the size of the labor force
   a. 300 million. b. 240 million. c. 156 million. d. 150 million.

7. CPI is a measure of the
   a. % change in the price level. b. average price of all goods.
   c. average price paid by consumers for a fixed market of goods. d. average price of all goods produced.

8. If the CPI in 1990 was 100 and the CPI in 1991 was 115, the rate of inflation was
   a. 1.5%. b. 15%. c. 100%. d. 115%.

9. The real interest rate is equal to the
   a. nominal interest rate + the inflation rate. b. nominal interest rate – the inflation rate.
   c. nominal interest rate x the inflation rate. d. nominal interest rate + the inflation rate.

10. Potential GDP is
    a. RGDP. b. GDP. c. another name for AE. d. RGDP at full employment.
11. At full employment there is no
a. unemployment.  
   b. cyclical unemployment.  
   c. structural unemployment.  
   d. frictional unemployment.

12. When LD intersects LS, so that quantity of labor supplied and demanded is equal
a. there is no unemployment.  
   b. the economy is fully employed.  
   c. GDP = RGDP.  
   d. there is no inflation.

13. The production function shows that as employment increases, RGDP
a. increases at an increasing rate.  
   b. increases at a decreasing rate.  
   c. increases at a constant rate.  
   d. decreases at a decreasing rate.

14. Suppose a major hurricane hits Florida. As a result, there is ______ in the U.S. production function, ______ in the U.S. demand for labor, and ______ in the U.S. supply of labor.
   a. no shift; an increase; a decrease.  
   b. a downward shift; an increase; a decrease.  
   c. downward shift; a decrease; no change.  
   d. an upward shift; no change; an increase.

15. The effect of the U.S. returning millions of workers to their home countries is ______ in Mexico’s production function and ______ in Mexico’s Yp.
   a. A movement up along; a decrease.  
   b. a movement up along; an increase.  
   c. an upward shift of; an increase.  
   d. an upward shift of; no change

II. Suppose Econland produces and consumes only juice and cloth. The base year is 2007, and the following table gives the typical family’s basket, the prices and Econland’s output of final goods

<table>
<thead>
<tr>
<th></th>
<th>basket</th>
<th>2007 price</th>
<th>2008 price</th>
<th>2007 output</th>
<th>2008 output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Juice</td>
<td>10</td>
<td>4</td>
<td>4</td>
<td>30</td>
<td>35</td>
</tr>
<tr>
<td>Cloth</td>
<td>5</td>
<td>5</td>
<td>6</td>
<td>20</td>
<td>30</td>
</tr>
</tbody>
</table>

b. Explain carefully what is inflation rate? Find the inflation rate in 2008. [8]

III. Potential GDP (Yp) model shows the relationship between employment (L) and Yp.

1. Explain carefully under what assumptions we can use \( Y = F(L;K,N,E) \) and LD and LS curves to describe the Yp model. [10]
2. Suppose the following events occur. Use Potential GDP (Yp) model to show the effects of each event on \( w \) (real wage), \( L_f \) (full employment quantity of labor) and Yp (potential RGDP) graphically. Please state the cause and the effect explicitly.
   (a) In US, more teenagers go to college this year. [10]
   (b) Dell introduces a new supercomputer that everyone can afford. [10]