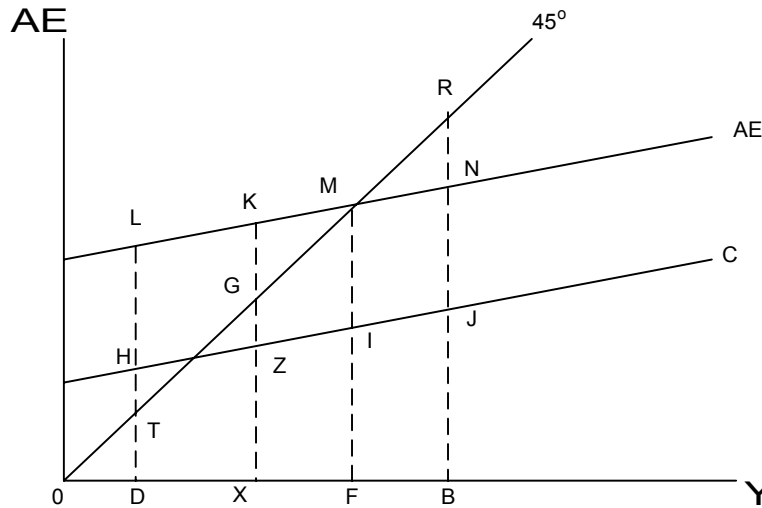NAME:_____ TUT:_____

PART I: Answer All Questions in Terms of Vertical Distances (i.e. D-T, Z-G)
Above is a Private, Closed Economy

1.Equilibrium occurs at *(vertically)*:	_____	FM
2. In equilibrium consumption equals	_____	FI
3. And savings equals	_____	IM
4. Planned investment equals	_____	IM
5. Actual investment equals	_____	IM

When National Income equals OB

6. Total expenditure equals	_____	BN
7. Consumption equals	_____	BJ
8. Savings equals	_____	JR
9. Planned investment equals	_____	JN
10. Actual investment equals	_____	JR
11. Unplanned inventories equals	_____	NR
12. Savings minus planned investment equals	_____	NR
13. Actual investment minus planned investment equals	_____	NR

When National Income equals OX

14. Actual investment minus planned investment equals	_____	KG
15. Unplanned inventories equals	_____	KG

PART II: ANSWER MULTIPLE CHOICE ON THIS PAGE

1.____a	6.____d	11.__d
2.____a	7.____a	12.__b
3.____b	8.____d	13.__b
4.____c	9.____c	14.__a
5.____c	10.____b	15.__b

MULTIPLE CHOICE SECTION: RECORD YOUR ANSWERS ON FIRST PAGE

1. "Homemakers often feel their work is taken for granted, and advocates in the women's movement argue that the statistical invisibility of homemakers' work has substantive policy implications." What is meant by "statistical invisibility" here?
~a) homemakers' output is not counted in GDP
b) homemakers' output is double-counted in GDP
c) homemakers' output is added into GDP at an artificially-low price
d) homemakers' output is only counted into GDP if there exists a market counterpart

2. "The rapid development of computers makes it difficult to determine how much of the change in measured prices of computers is due to pure price change or due to the change in quality of the product. It is clear that the cost of obtaining a given amount of computing capability has been falling." If the national accounts statistician makes proper adjustments, this implies that computers should be causing the CPI to
~a) fall   b) rise   c) be steady   d) move in no predictable direction

3. If the price index is 120 in 1989 and 150 in 1990, what is the rate of inflation?
a) 20% ~b) 25% c) 30% d) more than 30%

4. "That is why the jump in May's unemployment rate - from 7.2 percent to 7.5 percent, the highest during this business cycle - caused dismay. Yet this may be missing the point. The number of people in the labor force in the month of May jumped by 330,000." The higher unemployment rate was probably caused by
a) a fall in employment   b) a massive destruction of jobs
~c) an increase in the participation rate
d) an increase in the number of discouraged workers

5. "Even if employment continues to climb, the jobless rate will likely stay around its current level for the balance of this year, Cramer said. That's because ...." Complete this clipping.
a) the labor force will shrink   b) the extra jobs will be part-time
~c) of increases in the participation rate   d) of an increase in discouraged workers

6. People who worry that unemployment will increase in the future because we will be unable to compete in a "free-trade" international environment are expressing a concern about future
a) seasonal unemployment   b) cyclical unemployment
c) frictional unemployment   ~d) structural unemployment

MULTIPLE CHOICE SECTION: RECORD YOUR ANSWERS ON FIRST PAGE

7. An increase in the number of encouraged workers
~a) raises the unemployment rate and the participation rate
b) lowers the unemployment rate and the participation rate
c) lowers the unemployment rate and raises the participation rate
d) raises the unemployment rate and lowers the participation rate

8. One cause of structural unemployment is due to
a) workers looking for better jobs   b) geographical mobility of the labour force
c) a decline in the economy's total production
~d) automation displacing workers from their jobs

9. "We saved 17 percent of our disposable income during the recession, the highest rate since World War II. The level of savings has fallen off since then to less than 10 percent of disposable income." What effect would a higher savings rate have on the recession?
a) it would not affect the recession   b) it would make the recession less severe
~c) it would make the recession more severe
d) it would have no predictable effect on the recession

10. "There have been times when the federal government has kept pumping fiscal stimulus into the economy when it was already growing vigorously and did not need the boost. The result was ......" Complete this clipping.
a) higher taxes   ~b) higher inflation
c) higher unemployment   d) more discouraged workers

11. "Counter-cyclical policy is about filling in holes and shaving off peaks, exactly what John Maynard Keynes prescribed." Exactly what filling in holes and shaving off peaks did Keynes prescribe?
a) raising taxes in recessions and decreasing government spending in booms
b) cutting taxes in recessions and increasing government spending in booms
c) decreasing government spending in recessions and increasing it in booms
~d) increasing government spending in recessions and decreasing it in booms

12. *Consider an economy in which the current level of income is $600b, "the" multiplier is 4, the marginal tax rate is 20%, the current budget deficit is $30b.*
To increase income to $650b we require an increase in government spending of
    a) less than $10b
    ~b) between $10b and $15b
    c) between $15b and $20b
    d) over $20b

MULTIPLE CHOICE SECTION: RECORD YOUR ANSWERS ON FIRST PAGE

13. If you know that investment is quite volatile and you would prefer to see the economy with smaller rather than larger swings in economic activity, then
a) you would prefer a large MPC   ~b) you would prefer a small MPC
c) the value of the MPC is not relevant because the problem is investment behavior
d) the value of the MPC is not relevant because policy authorities can smooth out cycles with appropriate policy action

14. Which of the following will be added to GDP as conventionally calculated?
~a) the cost of cleaning up an oil spill   b) an unemployment insurance payment
c) dividends earned by an American on shares in a British company
d) the value of work done by a parent staying home to care for children

15. In a closed, private economy the level of planned investment is 300 and the savings function is $S = -100 + 0.25Y$. The equilibrium level of income and consumption respectively is
 a) 1200, 900
 ~b) 1600, 1300
 c) 533, 400
 d) 1600, 1200