

TA's Name & Section # _____

Sign the Honor Pledge Here: _____

Midterm Exam No. 3

Instructions:

- 1) On your blue answer sheet mark in the bubbles for your name, student PID number, and section number. The section number should be filled in like this: "000802" for Tsuyoshi's Wed 4:40 pm section in the area marked "sequence number." **Two points will be deducted if you incorrectly record your section number.**
- 2) Write your exam # (upper right hand corner of this page) on the **top left** corner of your blue answer sheet.
- 3) On your blue answer sheet, where it says "Page Number" bubble in either "1" or "2" depending on whether it says "Page 1" or "Page 2" at the top left corner of this page.
- 4) Go **RIGHT NOW** to page 5 of this exam and write your name, PID#, and TA's name.
- 5) Answer all questions. There are six (6) pages on the exam.
- 6) **Turn in your exam** with your answer sheet. Interleave the answer sheet in the exam paper.
- 7) Sign the Honor Code on your blue answer sheet and on this page.

Section	Day	Start	Room	TA Name
801	Mo	4:40PM	Gardner 0007	Pyongsik Kim
802	We	4:40PM	Gardner 0007	Tsuyoshi Nakano
804	We	8:00AM	Gardner 0007	Boyuan Li
805	Mo	9:05AM	Gardner 0106	Gu, Jiadong
806	We	9:05AM	Gardner 0106	Boyuan Li
807	Mo	10:10AM	Gardner 0106	Gu, Jiadong
808	We	10:10AM	Gardner 0106	Yi, Lu
810	We	11:15AM	Gardner 0106	Yi, Lu
811	Mo	2:30PM	Gardner 0106	Mauricio Salazar
812	We	2:30PM	Gardner 0106	Tsuyoshi Nakano
813	Mo	3:35PM	Gardner 0106	Pyongsik Kim

Multiple Choice (4 points each)

1. A budget deficit is best defined as the
 - 1) shortage of spending power created by a government spending cut.
 - 2) shortage of spending power created by a tax increase.
 - 3) accumulation of past debt that has not been covered by taxes.
 - 4) amount by which a government's expenditures exceed receipts during a specific time period.

2. Which of the following is not counted as part of GDP?
 - 1) A salesman's commission from selling a used car.
 - 2) A new engine that will be used to build a new car.
 - 3) A new tire purchased by someone to maintain her older car.
 - 4) A ride-share driver's income earned driving his pre-owned car.

3. With no changes in fiscal policy, the budget
 - 1) will run a surplus during a recession and a deficit during a boom.
 - 2) deficit will rise during a recession and fall during a boom.
 - 3) deficit will fall during a recession and rise during a boom.
 - 4) will remain unchanged by adverse economic conditions.

4. The only factor that can cause movement along the aggregate supply curve is the
 - 1) labor force.
 - 2) capital stock.
 - 3) availability of resources.
 - 4) price level.

5. When equilibrium GDP is below potential (or natural level of) GDP, jobs are _____.
 - 1) plentiful and unemployment is low.
 - 2) plentiful and unemployment is high.
 - 3) scarce and unemployment is high.
 - 4) scarce and unemployment is low.

6. When an inflationary gap is eliminated without any change in economic policy, a stable equilibrium is re-established with a ____ price level and with actual GDP ____ potential GDP.
 - 1) higher; equal to
 - 2) higher; greater than
 - 3) lower; equal to
 - 4) lower; greater than

7. Taxes are the difference between
 - 1) GDP and net exports.
 - 2) GDP and consumer spending.
 - 3) Consumer spending and saving.
 - 4) GDP and disposable income.

8. An increase in a poll tax will cause the consumption function to
 - 1) shift upward.
 - 2) shift downward.
 - 3) become steeper.
 - 4) become less steep.

9. In Econ101 Kingdom, the marginal propensity to consume (MPC) is 0.8 and the income tax rate is 25%. The government of the Econ101 Kingdom plans to raise the poll tax by \$100 million in total. Suppose that all other economic factors remain the same, after the tax increase the GDP will
 - 1) decrease by \$100 million.
 - 2) decrease by \$200 million.
 - 3) decrease by \$250 million.
 - 4) decrease by \$500 million.

10. As for price indices,
- 1) the GDP deflator measures the prices of only the goods and services bought by consumers.
 - 2) the GDP deflator measures the price of output relative to its price in the base year.
 - 3) the CPI measures the prices of the goods and services bought by consumers and businesses.
 - 4) the CPI measures the prices of the goods and services bought by consumers and governments.
11. If the labor force grows faster than the number of employed, the
- 1) labor force participation rate will increase.
 - 2) unemployment rate will fall.
 - 3) employment rate will rise.
 - 4) unemployment rate will rise.
12. If aggregate demand shifts leftward (\leftarrow) over a long period of time, with aggregate supply held constant, the economy should experience
- 1) Inflation
 - 2) Recession
 - 3) Budget surpluses
 - 4) Stagflation
13. Which of the following would an economist call investment?
- 1) Boyuan buys treasury bonds issued by government.
 - 2) Lu buys more equipment to expand her production of iPhones.
 - 3) Mauricio invests thousands of dollars in stock.
 - 4) Tsuyoshi sells his old car for cash.
14. If disposable income in the U.S. increases from \$12,000 billion to \$20,000 billion, and consumption spending increases by \$6,000 billion, the marginal propensity to consume equals
- 1) 0.30
 - 2) 0.50
 - 3) 0.75
 - 4) 0.85
15. Which of the following is consistent with growth in equilibrium aggregate demand in the C+I+G diagram?
- 1) Investment spending decreases.
 - 2) imports increase and exports do not change.
 - 3) price level increases.
 - 4) MPC increases.
16. Assume that the FED makes a sale of treasury bonds of \$10 billion. If the required reserve ratio is 10%, it can be stated that:
- 1) The money supply will increase by \$100 billion.
 - 2) The money supply could increase by \$100 billion.
 - 3) The money supply will decrease by \$100 billion.
 - 4) The money supply could decrease by \$100 billion.

17. Everything else constant, if the FED obliges commercial banks to increase the money they have to keep in their reserves; What happens to the required reserve ratio, the money multiplier, and the money supply?
- 1) It increases, the multiplier of money increases, and the supply of money increases.
 - 2) It increases, the money multiplier decreases, and the money supply decreases.
 - 3) It decreases, the money multiplier increases, and the money supply increases.
 - 4) It decreases, the money multiplier decreases, and the money supply increases.
18. Say an economy has consumption, investment, and government expenditures as listed below. There are no taxes this year.

$$C = 100 + .8Y$$

$$I = 200 + .1Y$$

$$G = 300$$

Which of the following statements is a correct characterization of equilibrium aggregate demand?

- 1) GDP = \$6,000 and I = \$800
- 2) GDP = \$6,000 and C = \$4,800
- 3) GDP = \$3,000 and I = \$600
- 4) GDP = \$3,000 and C = \$4,900

Answers to MC Questions: Mtm 3 F 2019 Econ 101-8

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2	11	2
3	12	2
4	13	4
5	14	3
6	15	1
7	16	4
8	17	2
9	18	2
10	1	2
11	2	4
12	3	2
13	4	2
14	5	3
15	6	4
16	7	4
17	8	2
18	9	1