1. The gap between the demand curve and the market price is called:
   A) consumer surplus.
   B) deadweight loss.
   C) profit.
   D) producer surplus.

2. Suppose that a customer's willingness to pay for a product is $79, and the seller's willingness to sell is $64. If the negotiated price is $68, how much is consumer surplus?
   A) $4
   B) $11
   C) $15
   D) $21

3. If you are willing to sell your old bicycle for $30, but someone offers you $40 for it, the results of the transaction would yield:
   A) $10 worth of producer surplus and unknown consumer surplus.
   B) $10 worth of consumer surplus and unknown producer surplus.
   C) $30 worth of consumer surplus and $10 worth of producer surplus.
   D) $30 worth of producer surplus and $10 worth of consumer surplus.

Use the following to answer question 4:

**Figure: Determining Total Surplus**

![Graph showing the determination of total surplus with supply and demand curves.]
4. (Figure: Determining Total Surplus) In this graph, total surplus is shown by area:
   A) \( acdf \).
   B) \( ace \).
   C) \( bee \).
   D) \( afe \).

5. If the price of a good is higher than the equilibrium price:
   A) consumer surplus is decreased and deadweight loss is increased.
   B) consumer surplus is increased and deadweight loss is decreased.
   C) producer surplus is decreased and deadweight loss is increased.
   D) producer surplus is decreased and deadweight loss is decreased.

6. Suppose that the price of a good is $6 and equilibrium price is $8. Compared to market equilibrium:
   A) consumer surplus is decreased and deadweight loss is increased.
   B) consumer surplus is increased and deadweight loss is decreased.
   C) producer surplus is decreased and deadweight loss is increased.
   D) producer surplus is decreased and deadweight loss is decreased.

7. A $2 maximum price on a gallon of gasoline would be an example of:
   A) a price ceiling.
   B) a price floor.
   C) rent control.
   D) laissez-faire.

8. If a price ceiling is set above the market price, it is:
   A) effective.
   B) efficient.
   C) ineffective.
   D) inefficient.

9. Suppose the equilibrium price of a bunch of carrots is $1. The price floor instituted by the government is $1.50.
   A) We would expect to see a surplus of carrots.
   B) There would be a shortage of carrots.
   C) Farmers would switch from growing carrots to growing potatoes.
   D) The price floor would have no impact on the market because it is higher than equilibrium price.
10. Suppose the equilibrium price for a gallon of milk is $2.50, but due to government price supports, the minimum legal price is $2.75 per gallon. Then this price floor:
   A) causes a surplus of milk in the market.
   B) causes a shortage of milk in the market.
   C) has no impact on equilibrium in the market.
   D) results in quantity demanded exceeding quantity supplied.

11. An economy has historically grown at a rate of 2.25%. Currently, this economy is growing at a rate of 3%, and the unemployment rate is low by historical standards. The economy is expected to continue to grow in the near future, and the monetary authorities are concerned that inflation may increase. This economy is probably in the ________ stage of the business cycle.
   A) expansion
   B) recovery
   C) contraction
   D) trough

12. Suppose the National Bureau of Economic Research announces that the economy has been in a recession for the past year. What effect might this announcement have on the economy?
   A) The Federal Reserve will probably increase interest rates to fight the recession.
   B) Employers will probably trim payrolls in an effort to cut costs in the face of decreased demand for their products.
   C) Businesses will invest heavily in plant and equipment.
   D) Businesses will add shifts to prepare for the upcoming recovery.

13. We are most likely to see a recession if interest rates on long-term bonds are ________ and interest rates on short-term bonds are ________.
   A) 8%; 6%
   B) 5%; 5%
   C) 7%; 7%
   D) 2%; 4%

14. GDP can be found either by adding up all of the ________ or all of the ________ in the economy.
   A) spending; taxes
   B) spending; income
   C) investment; income
   D) net interest payments; taxes
15. Which ONE of the following would be included in the GDP calculations?
   A) a windshield purchased by General Motors
   B) a hamburger purchased by a hungry restaurant patron
   C) petroleum purchased by a refiner from the company that drilled it
   D) nails purchased by a building contractor

16. If personal consumption is $100, investment is $25, government purchases total $25, imports equal $20, and exports equal $10, then GDP equals:
   A) $160.  
   B) $180.  
   C) $150.  
   D) $140. 

17. When Mr. Wilson worked full time, he paid a cleaning service to have his house cleaned twice a month. Now that he is retired, Mr. Wilson does his own cleaning. What is the effect on GDP?
   A) GDP is unaffected by this change.  
   B) GDP falls as a result of this change.  
   C) GDP at first rises but then falls.  
   D) GDP rises as a result of this change. 

18. Which of the following items would be included in the GDP accounts?
   A) personal time spent learning how to use accounting software  
   B) personally rotating the tires on your neighbor's car  
   C) caring for your aged grandmother at home  
   D) $50 consultation on the phone with a psychic adviser 

19. If in the past you have always painted your own house but now you hire a painting contractor to do the work, what is the effect on GDP?
   A) GDP is unaffected by this change.  
   B) GDP falls as a result of this change.  
   C) GDP at first rises but then falls.  
   D) GDP rises as a result of this change. 

20. Which of the following activities is an example of a nonmarket transaction?
   A) hiring a maid to clean your home  
   B) employing a lawn service worker to trim your bushes  
   C) hiring a nanny to take care of your kids  
   D) growing your own food in a vegetable garden
21. What is real GDP in 2014 if nominal GDP in 2014 is $15,000 billion, the GDP deflator in 2014 is 110, and the GDP deflator in 2010 was 100?
   A) $9.1 billion
   B) $13,636 billion
   C) $14,010 billion
   D) $16,500 billion

22. Last year the consumer price index (CPI) was 115 and this year's CPI is 125. The rate of inflation is:
   A) 8.7%.
   B) 8%.
   C) 9.2%.
   D) 10.8%.

23. Suppose the market basket of goods and services cost $3,500 in 1996 but today costs $4,250. Using 1996 as the base year, the consumer price index for today is:
   A) 79.6.
   B) 120.0.
   C) 82.4.
   D) 121.4.

24. An economy has a population of 226,500. Of them, 12,500 are unemployed and actively seeking work, and 35,000 have given up looking for a job. Also, 28,000 people work part-time, and 151,000 people work full-time. This economy's unemployment rate is _______. (Round the percentage to one decimal place; for example, 0.0436 is 4.4%.)
   A) 6.5%
   B) 21.0%
   C) 5.5%
   D) 21.1%

Use the following to answer question 25:

<table>
<thead>
<tr>
<th>Population</th>
<th>500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number employed</td>
<td>300</td>
</tr>
<tr>
<td>Number unemployed</td>
<td>50</td>
</tr>
</tbody>
</table>
25. (Table) According to the table, what is the labor force of this economy?
   A) 50
   B) 300
   C) 350
   D) 500

26. The nation of Workovia has a population of 15 million, of whom 10 million are in the labor force and 9 million are working. Workovia's unemployment rate is:
   A) 27%.
   B) 60%.
   C) 33%.
   D) 10%.

27. Jennifer did not work during college. She just obtained a bachelor's degree in marketing, and she is now looking for a marketing job in the retail industry. Jennifer is considered:
   A) structurally unemployed.
   B) frictionally unemployed.
   C) cyclically unemployed.
   D) not in the labor force.

28. During the 1970s, when handheld calculators became popular and replaced slide rules in performing computations, workers in the slide rule industry lost their jobs. These workers' unemployment status is:
   A) frictional.
   B) cyclical.
   C) structural.
   D) natural.

29. Suppose an economist breaks the unemployment rate into the following components: frictional (2%), structural (1%), and cyclical (4%). Based on these estimates, the natural rate of unemployment is:
   A) 0%.
   B) 3%.
   C) 5%.
   D) 7%.
30. The nonaccelerating inflation rate of unemployment is the unemployment rate associated with ____ inflation and ____ unemployment:
   A)  high; high
   B)  high; low
   C)  low; high
   D)  low; low

31. If the growth rate in an economy is 3.5%, then its GDP will double in about:
   A)  3.5 years.
   B)  20 years.
   C)  70 years.
   D)  245 years.

32. For which growth rate would the Rule of 70 be least accurate?
   A)  1%
   B)  15%
   C)  20%
   D)  30%

33. If a country's population increases at a slower rate than the growth in its real GDP:
   A)  GDP per capita has increased.
   B)  the standard of living in the country has declined.
   C)  average output per person has decreased.
   D)  the country's rate of inflation has decreased.

34. Human capital includes:
   A)  physical capital.
   B)  labor.
   C)  the improvements to labor capabilities from training, education, and apprenticeship programs.
   D)  pension plans that enable early retirement.

35. The natural gas deposits found in the United States over the past decade are an example of an increase in:
   A)  land and natural resources.
   B)  labor.
   C)  physical capital.
   D)  entrepreneurial ability, technology, and ideas.
36. Which of the following strategies is an example of increasing the capital-to-labor ratio?
   A) replacing the roof on a factory building
   B) sending workers to training classes
   C) giving a construction crew more backhoes
   D) increasing the number of workers harvesting the crop in a field

37. The following table shows data for four countries.

<table>
<thead>
<tr>
<th>Country</th>
<th>Workers</th>
<th>Capital Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>100</td>
<td>$4,000</td>
</tr>
<tr>
<td>B</td>
<td>50</td>
<td>$500</td>
</tr>
<tr>
<td>C</td>
<td>200</td>
<td>$1,000</td>
</tr>
<tr>
<td>D</td>
<td>150</td>
<td>$150</td>
</tr>
</tbody>
</table>

   The table shows that the country with the most productive workers is:
   A) A.
   B) B.
   C) C.
   D) D.

38. Use of tax receipts to modernize the air traffic control system promotes economic growth by:
   A) ensuring a stable legal system.
   B) enhancing physical and human capital.
   C) ensuring a stable and secure financial system.
   D) promoting free and competitive markets.

39. The government decides to subsidize the development of a new communications network. It is acting in its role to promote economic growth by:
   A) ensuring a stable legal system.
   B) enhancing physical and human capital.
   C) ensuring a stable and secure financial system.
   D) promoting free and competitive markets.

40. Unanticipated _____ is detrimental to economic growth.
   A) inflation but not deflation
   B) inflation or deflation
   C) deflation but not inflation
   D) Neither inflation nor deflation is detrimental to economic growth.
ECO 2013.004 Principles of Macroeconomics - Spring 2016
Practice Test #2 - Answer Key

1. A
2. B
3. A
4. B
5. A
6. C
7. A
8. C
9. A
10. A
11. A
12. B
13. D
14. B
15. B
16. D
17. B
18. D
19. D
20. D
21. B
22. A
23. D
24. A
25. C
26. D
27. B
28. C
29. B
30. D
31. B
32. D
33. A
34. C
35. A
36. C
37. A
38. B
39. B
40. B