Eastern Mediterranean University  
Faculty of Business and Economics  
Department of Economics  
2015-16 Spring Semester  

ECON102 - Introduction to Economics I  
Quiz 1  
Type A - Answer Key  

28 March 2016  

Duration: 50 minutes  

Name: _________________________  
Student ID: _____________________  
Group No: ______________________  

Multiple Choice Questions (4 points each, total 120 points)  

1. Which of the following topics are more likely to be studied by a macro-economist than by a micro-economist?  
   A. The effect of taxes on the prices of airline tickets, and the profitability of automobile-manufacturing firms  
   B. The price of beef, and wage differences between genders  
   C. How consumers maximize utility, and how prices are established in markets for agricultural products  
   D. The percentage of the labor force that is out of work, and differences in average income from country to country  

2. Which of the following is not a question that macroeconomists address?  
   A. Why is average income high in some countries while it is low in others?  
   B. Why does the price of oil rise when war erupts in the Middle East?  
   C. Why do production and employment expand in some years and contract in others?  
   D. Why do prices rise rapidly in some periods of time while they are more stable in other periods?  

3. GDP is defined as the  
   A. value of all goods and services produced within a country in a given period of time.  
   B. value of all goods and services produced by the citizens of a country, regardless of where they are living, in a given period of time.  
   C. value of all final goods and services produced within a country in a given period of time.  
   D. value of all final goods and services produced by the citizens of a country, regardless of where they are living, in a given period of time.  

4. Which of the following statements about GDP is correct?  
   A. GDP measures two things at once: the total income of everyone in the economy and the total expenditure on the economy's output of goods and services.  
   B. Money continuously flows from households to firms and then back to households, and GDP measures this flow of money.  
   C. GDP is generally regarded as the best single measure of a society's economic well-being.  
   D. All of the above are correct.  

5. For an economy as a whole,  
   A. wages must equal profit.  
   B. consumption must equal income.  
   C. income must equal expenditure.  
   D. consumption must equal saving.  

6. In a simple circular-flow diagram,  
   A. households spend all of their income.  
   B. all goods and services are bought by households.  
   C. expenditures flow through the markets for goods and services, while income flows through the markets for the factors of production.
7. Sheri, a U.S. citizen, works only in Germany. The value she adds to production in Germany is included
A. in both German GDP and U.S. GDP.
B. in German GDP, but is not included in U.S. GDP.
C. in U.S. GDP, but is not included in German GDP.
D. in neither German GDP nor U.S. GDP.

8. Thomas, a U.S. citizen, works only in Canada. The value of the output he produces is
A. included in both U.S. GDP and U.S. GNP.
B. included in U.S. GDP, but it is not included in U.S. GNP.
C. included in U.S. GNP, but it is not included in U.S. GDP.
D. included in neither U.S. GDP nor U.S. GNP.

9. Disposable income is
A. the total income earned by a nation’s permanent residents.
B. the total income earned by a nation’s residents in the production of goods and services.
C. the income that households and non-corporate businesses receive.
D. the income that households and businesses have remaining after satisfying their obligations to the government.

10. In the equation $Y = C + I + G + NX$,
A. $Y$ represents the economy's total expenditure.
B. $C$ represents household expenditures on services and durable goods.
C. All of the variables are always positive numbers.
D. All of the above are correct.

11. A German citizen buys an automobile produced in the United States by a Japanese company. As a result,
A. U.S. net exports increase, U.S. GDP is unaffected, Japanese GNP increases, German net exports decrease, and German GNP and GDP are unaffected.
B. U.S. net exports and GDP increase, Japanese GNP increases, German net exports decrease, German GNP and GDP decrease.
C. U.S. net exports and GDP increase, Japanese GNP increases, German net exports decrease, and German GNP and GDP are unaffected.
D. U.S. net exports and GDP are unaffected, Japanese GNP increases, and German net exports, GNP, and GDP decrease.

12. In the economy of Talikastan in 2015, consumption was $700, exports were $200, government purchases were $300, imports were $150, and investment was $400. What was Talikastan’s GDP in 2015?
A. $1350  B. $1450  C. $1050  D. $1750

13. If total spending rises from one year to the next, then
A. the economy must be producing a larger output of goods and services.
B. goods and services must be selling at higher prices.
C. either the economy must be producing a larger output of goods and services, or goods and services must be selling at higher prices, or both.
D. employment or productivity must be rising.

14. A country’s real GDP rose from $500 to $530 while its nominal GDP rose from $600 to $700. What was this country’s inflation rate?
A. 16.7%.
B. 10.1%.
C. 15.0%.
D. -9.1%.

15. Suppose an economy produces only eggs and ham. In 2009, 100 dozen eggs are sold at $3 per dozen and 50 pounds of ham sold at $4 per pound. In 2010, the base year, eggs sold at $1.50 per dozen and ham sold at $5 per pound. For 2009,
A. nominal GDP is $400, real GDP is $550, and the GDP deflator is 80.
B. nominal GDP is $400, real GDP is $550, and the GDP deflator is 125.
C. nominal GDP is $500, real GDP is $400, and the GDP deflator is 80.
D. nominal GDP is $500, real GDP is $400, and the GDP deflator is 125.
16. The consumer price index is used to
   A. convert nominal GDP into real GDP.
   B. turn dollar figures into meaningful measures of purchasing power.
   C. characterize the types of goods and services that consumers purchase.
   D. measure the quantity of goods and services that the economy produces.

17. Which of the following is correct?
   A. The GDP deflator is better than the CPI at reflecting the goods and services bought by consumers.
   B. The CPI is better than the GDP deflator at reflecting the goods and services bought by consumers.
   C. The GDP deflator and the CPI are equally good at reflecting the goods and services bought by consumers.
   D. The GDP deflator is more commonly used as a gauge of inflation than the CPI is.

18. If 2012 is the base year, then the inflation rate for 2013 equals

   \[ \frac{\text{CPI in } 2013 - \text{CPI in } 2012}{\text{CPI in } 2012} \times 100 \]

   A. \[ \frac{\text{CPI in } 2013 - \text{CPI in } 2012}{\text{CPI in } 2012} \times 100 \]
   B. \[ \frac{\text{CPI in } 2013 - \text{CPI in } 2012}{\text{CPI in } 2012} \times 100 \]
   C. \[ \frac{\text{CPI in } 2013 - \text{CPI in } 2012}{\text{CPI in } 2012} \times 100 \]
   D. \[ \frac{\text{CPI in } 2013 - \text{CPI in } 2012}{\text{CPI in } 2012} \times 100 \]

19. The table below pertains to PieWay, an economy in which the typical consumer’s basket consists of 15 bushels of peaches and 10 bushels of pecans.

<table>
<thead>
<tr>
<th>Year</th>
<th>Price of Peaches</th>
<th>Price of Pecans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$11 per bushel</td>
<td>$6 per bushel</td>
</tr>
<tr>
<td>2013</td>
<td>$9 per bushel</td>
<td>$10 per bushel</td>
</tr>
</tbody>
</table>

Refer to table above, the cost of the basket in 2012 was
A. $200.
B. $225.
C. $235.
D. $212.50.

20. Refer to table above, if 2012 is the base year, then the CPI for 2012 was
A. 95.7.
B. 100.0.
C. 90.0.
D. 110.0.

21. Refer to table above, if 2012 is the base year, then the CPI for 2013 was
A. 95.7.
B. 100.0.
C. 104.4.
D. 110.0.

22. Refer to table above, if 2012 is the base year, then the inflation rate in 2013 was
A. 23.5 percent.
B. 1.04 percent.
C. 10 percent.
D. 4.4 percent.
23. Institutions that help to match one person’s saving with another person’s investment are collectively called the
   A. Federal Reserve System.
   B. Banking system.
   C. Monetary system.
   D. **Financial system.**

24. Which of the following is a financial-market transaction?
   A. A saver buys shares in a mutual fund.
   B. A saver deposits money into a credit union.
   C. **A saver buys a bond a corporation has just issued so it can purchase capital.**
   D. None of the above is correct.

25. If the government’s expenditures exceeded its receipts, it would likely
   A. Lend money to a bank or other financial intermediary.
   B. Borrow money from a bank or other financial intermediary.
   C. Buy bonds directly from the public.
   D. **Sell bonds directly to the public.**

26. Which of the following is *not* correct?
   A. By saving a larger portion of its GDP, a country can raise its output per worker.
   B. Savers supply their money to the financial system with the expectation that they will get it back with
      interest at a later date.
   C. Financial intermediaries are the only type of financial institution.
   D. The financial system helps match people’s saving with other people’s borrowing.

27. In a small closed economy investment is $50 billion and private saving is $45 billion. What are public saving
   and national saving?
   A. $5 billion and $45 billion
   B. -$5 billion and $45 billion
   C. **$5 billion and $50 billion**
   D. -$5 billion and $50 billion

28. For a closed economy, GDP is $12 trillion, consumption is $7 trillion, taxes net of transfers are $3 trillion and
   the government runs a deficit of $1 trillion. What are private saving and national saving?
   A. $5 trillion and $3 trillion, respectively
   B. $5 trillion and $1 trillion, respectively
   C. **$2 trillion and $3 trillion, respectively**
   D. $2 trillion and $1 trillion, respectively

Assume the following information for an imaginary, closed economy.

GDP = $100,000; taxes = $22,000; government purchases = $25,000; national saving = $15,000.

29. Refer to above information. For this economy, investment amounts to
   A. $38,000.
   B. **$18,000.**
   C. $12,000.
   D. **$15,000.**

30. Refer to above information. For this economy, consumption amounts to
   A. $68,000.
   B. **$38,000.**
   C. $53,000.
   D. **$60,000.**