**[The multiple choice questions for exams more recent than Winter, 2008, are not reproduced here].**

**[Do NOT print all pages – there are more than 60!!]**

**Econ 201 Exam #1a Winter, 2014 Professor Twomey Student Name: \_\_\_\_\_\_**

Part II. (Use the back of the last sheet if you need more space)

Identify the following with a sentence or at most two: (16 points)

Trade-offs

Off-shore outsourcing

Normative economics

NAFTA

1. (10 points) Suppose a new election brought to power a well-meaning politician who wanted to increase the number of poor people who could utilize a new anti-cancer medical procedure. The method chosen by this politician was a law that put a maximum on the amount hospitals could charge for this operation. Using the textbook’s supply and demand framework, what would be the standard analysis of the impact of this new law on potential patients? Explain and illustrate with a graph.
2. (10 points) The market for many goods changes in predictable ways according to the time of year, in response to events such as holidays, vacation times, and seasonal changes in production. Using supply and demand graphs, explain the change in price in each of the following cases.
3. Lobster prices usually fall during the summer peak harvest season, despite the fact that people like to eat lobster more in the summer than at any other time of year.
4. The price of a Christmas tree is lower after Christmas than before, but fewer trees are sold.
5. The price of a round-trip ticket to Paris on Air France falls by more than $200 after the end of our school vacation period in September. This happens despite the fact that generally worsening weather increases the cost of operating flights to Paris, and Air France therefore reduces the number of flights to Paris at any given price.
6. (13 points) It is currently the case that there have been several changes in government in countries that are not sophisticated technologically. Consider a fictitious case of such a country that we’ll call Egmont. Suppose that the previous government of Eggmont had followed free trade, but that the new regime decides it wants to use a tariff to help modernize the country by encouraging local production of airplanes – a product that previously they had only imported.

Explain and illustrate on a graph the impact of this tariff on local prices, production, consumption and imports.

* The textbook describes three arguments in favor of tariffs. Identify each of them real briefly, and mention which one might best support the action of the new regime in Egmont.

The median on this exam was 72; the high was 98.

E**con 201 Exam #1b Winter, 2014 Professor Twomey Student Name: \_\_\_\_\_\_\_** Please answer on these sheets. If any question is unclear, please ask for an explanation. For the multiple choice questions, circle the letter corresponding to your answer. The multiple choice questions are worth three points apiece; weights vary on the questions in the second part. Time: the entire class. Good luck.

**Part II** Answer on the bottom of the last sheet if you need more space.

Identify the following with a sentence or at most two: (16 points)

WTO

Adam Smith

Opportunity cost

Positive economics

2. Suppose our campus had powerful supporters in the state legislature, and those representatives decided to help us by passing a bill requiring any firm that hires a UM-D graduate to pay that student at least $30/hour. According to standard textbook economic analysis, what would be the impacts of such legislation? Explain and illustrate with a graph.

1. Will Shakespeare is a struggling playwright in sixteenth century London. When the price he receives for writing a play increases, he is willing to write more plays. For the following situations, explain - and use a supply and demand graph to illustrate – how each even affects the equilibrium price and quantity for Mr. Shakespeare’s plays.
2. The bubonic plague, a deadly infectious disease, breaks out in London.
3. The playwright Christopher Marlowe, Shakespeare’s chief rival, is killed in a bar brawl.
4. To celebrate the defeat of the Spanish Armada, Queen Elizabeth declares several weeks of festivities, which involves commissioning new plays.
5. (13 points) Before the North American Free Trade Agreement (NAFTA) gradually eliminated import tariffs on goods, the autarky price of tomatoes in Mexico as below the world price and in the U.S. it was above the world price. Similarly, the autarky price of poultry in Mexico was above the world price, and in the U.S. it was below the world price. As a result of NAFTA, the U.S. now imports tomatoes from Mexico, and the U.S. exports poultry to Mexico. Draw supply and demand graphs for both products in both countries, identifying the pre-NAFTA and post-NAFTA situations for each product.

How does the adoption of NAFTA affect US and Mexican consumption of tomatoes? Indicate those points on the above graphs.

How does NAFTA affect production of poultry in the US and Mexico? Illustrate those points on the above graphs.

How does NAFTA affect employment in the poultry industry in the US and Mexico.

The median on this exam was 74; the high was 93.

**Econ 201 Exam #1 Fall, 2013 Professor Twomey Student Name:\_\_\_\_\_**

**Part II. Short answer questions. If you need more space, use the back of the last sheet.**

1. Identify the following with a sentence or at most two (16 points):
2. Normative economics
3. Opportunity cost
4. Comparative advantage
5. NAFTA
6. (10 points) Suppose a newly elected leader of a country wants to control costs of medical care, and make that now less expensive medical care accessible to all the citizens, by imposing price controls on medicines and many procedures – let’s call them all “CAT scans.” What is the standard, textbook analysis of the economic effects of these price controls. Explain, and illustrate with a graph.
7. (12 points) Let’s take a different case, of a change in policy in low income, low tech ‘third world’ country, that used to follow free trade. Now, suppose somebody comes to power who wants to catch up with the rest of the world by imposing a tariff on an item which looks real promising, let’s call it computers. Explain and illustrate with a graph how this tariff will affect domestic production, consumption, and imports of computers.

4 (11 points) Consider the small island-state Atlantis in the south Atlantic. Its inhabitants produce only potatoes and fish, according to the following table.

|  |  |  |  |
| --- | --- | --- | --- |
| Option | | Q of Potatoes (pounds) | Q of Fish (pounds) |
| A | 1,000 | | 0 |
| B | 800 | | 300 |
| C | 600 | | 500 |
| D | 400 | | 600 |
| E | 200 | | 650 |
| F | 0 | | 675 |

Draw the Production Possibility Curve of Atlantis (next to the table).

Can Atlantis produce 500 pounds of fish and 800 pounds of potatoes? Explain

What is the opportunity cost of increasing the annual output of potatoes from 600 to 800 pounds?

What is the opportunity cost of increasing the annual output of potatoes from 200 to 400 pounds?

Explain why the answers to ‘c’ and ‘d’ are not the same.

|  |  |
| --- | --- |
|  |  |

The median on this exam was 76 : the high was 93 .

**Econ 201 Exam #1 Fall, 2012** Prof. Twomey Student Name

**Part II**. If you need more space, continue your answer onto the last sheet.

1. Identify the following with a sentence or at most two (16 points)

Offshore outsourcing

NAFTA

Opportunity cost

Positive economics

1. (13points) Suppose that a small, low income country (let’s call it Tunisia) that initially follows free trade, has a change in government, and the new leadership wants to industrialize, and so they impose tariffs on imports of, for example, autos from Germany and elsewhere. Using a supply and demand graph, illustrate both the free trade position and the new – protectionist – position of the auto market in Tunisia.

b. The textbook discusses three arguments in favor of tariffs, the first of which is strategic. Identify and explain briefly the other two, and discuss their potential applicability to a low income raw material exporter like Tunisia.

1. The small town of Middling experiences a sudden doubling of the birth rate. After three years, the birth rate returns to normal. Use graphs to illustrate the effects of these events on the following: (10 points)
2. The ‘normal’ market for an hour of babysitting services in Middling.
3. The market for an hour of babysitting services fourteen years in the future, by which time the children born during that unusual period are now able to work as babysitters.
4. The market for an hour of babysitting services thirty years into the future, when those children born back then will be likely to have their own children.
5. Let’s discuss minimum wages. (10 points)
6. Explain briefly the goal of minimum wage legislation.
7. Explain and illustrate with a graph the standard, textbook analysis of the effect of minimum wage legislation.
8. According to this theory, could the government avoid the negative effects of minimum wages by passing a law obliging everyone to work? Explain briefly.

The median on this exam was 77 ; the high was 94.

Econ 201 **Exam #1 Summer, 2012** Prof. Twomey Student Name: \_\_\_\_\_\_\_\_\_\_

The exam consists of two parts; multiple choice questions, valued at three points apiece, and the other questions, whose value is indicated separately. For the multiple choice questions, please circle the letter corresponding to your answer. Please ask for clarification of any unclear question. Time: the entire class. Good luck.

**Part II** (use the back sheet if you need more space.

1. Identify the following with a sentence or at most two (16 points):
2. Black markets
3. WTO
4. Trade-offs
5. Comparative advantage
6. (10 points) Will Shakespeare is a struggling playwright in sixteenth-century London. As the price he receives for writing a play increases, he is willing to write more plays. For the following situations, explain and use a graph to illustrate how each event affects the equilibrium price and quantity in the market for Shakespeare’s plays.
7. The playwright Christopher Marlowe,

Shakespeare’s chief rival, is killed in a bar brawl.

1. The bubonic plague, a deadly infectious disease,

breaks out in London, where Shakespeare’s plays are shown.

1. To celebrate the defeat of the Spanish Armada, Queen

Elizabeth (I) declares several weeks of festivity,

which includes commissioning new plays.

1. (10 points) The cost of medical care is increasing rapidly. Suppose our political system decided to try and contain these costs of health care by imposing limits on what medical patients could be charged. Explain and illustrate with a graph what a standard economic analysis would predict as the effects of this policy.
2. 4. (13 points) Suppose the United States originally imports motorcycles without tariffs, and that our domestic production under free trade is small, but positive, and limited to a single firm called SuperMoto.

Then, a new election brings someone to office who fulfills the campaign promise to help the motorcycle producing areas by imposing a tariff.

1. Explain, and illustrate with a graph, the impact of that tariff on US production, consumption, and imports of motorcycles.

b. Explain what is meant by the infant industry argument for protection (no graph needed).

c. If you were the chief economist for the newly elected politician, what evidence would you look for, in order to decide whether or not the infant industry proposition was working in the US for motorcycles? Explain briefly – again, graph optional.

The median on this exam was 77; the high was 93.

**Econ 201 Winter, 2012 Exam #1a** Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

The exam consists of two parts; multiple choice questions, valued at three points apiece, and the other questions, whose value is indicated separately. For the multiple choice questions, please circle the letter corresponding to your answer. Please ask for clarification of any unclear question. Time: the entire class. Good luck.

**Part II**. Use the bottom of the last sheet if you need more space.

1. Identify the following with a sentence or at most two: (16 points)
2. Market clearing price
3. Self-regulating
4. Market failure
5. Positive economics
6. (10 points) The rising cost of health care is certain to be an issue in the upcoming elections. Simplifying greatly, suppose that one of the major recent innovations in medical practice has been the development of CT scans, which are very expensive computer based x-ray machines that allow doctors to see inside a person’s body without making any incisions. Now, suppose that one of the candidates proposed a ceiling on the cost of a CT scan as a way of holding down health care costs. According to the standard economics textbook analysis, what would be the effect of this policy on this aspect of health care? Explain, and illustrate your answer with a graph.
7. (10 points) A survey indicated that chocolate is America’s favorite ice cream flavor. For each of the following, indicate the possible effects on demand and supply - or both – as well as on the equilibrium price and quantity of chocolate ice cream.
8. A severe drought in the Midwest causes dairy farmers to reduce the number of milk-producing cattle by a third; (cow’s milk is used for ice cream)
9. A new report by the American Medical Association reveals that chocolate does, in fact, have significant health benefits.
10. New technology for mixing and freezing ice cream lowers manufacturers’ costs of producing chocolate ice cream.
11. (13 points) Let’s try a before-and-after analysis of a low income country we’ll call Venezuela, which initially has free trade in a relatively new, high-tech product we’ll call cell-phones. Suppose that for some reason, the new president of Venezuela decides to attempt to develop local production of cell-phones using a tariff on imported phones.

Draw a graph of the Venezuelan market for cell phones, identifying the before and after situations of prices, production, consumption, and imports.

The textbook identified a few arguments for tariffs. Identify which of those might most likely apply to this case, and explain how it might work in this situation.

The median on this exam was 75 ; the high was 96 .

**Econ 201b Winter, 2012 Exam #1b** Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Part II**. You can use the bottom of the last sheet if you need more space.

1. Identify the following with a sentence or at most two: (16 points)
2. Trade deficit
3. Offshore outsourcing
4. Normative economics
5. Opportunity cost
6. 10 points) After several years of decline, the market for handmade guitars is making a comeback in the US. These guitars are usually made in small workshops employing highly skilled workers called luthiers. Assess the impact on the equilibrium price of guitars in the US in each of the following situations, illustrating each answer with a graph.
7. Environmentalists succeed in having the use of Brazilian rosewood banned in the US, forcing luthiers to seek out alternative, more costly woods.
8. A foreign producer re-engineers the guitar making process and floods the US market with identical guitars.
9. Music featuring handmade acoustic guitars makes a comeback as audiences tire of heavy metal and grunge music.
10. (10 points) Suppose that a full-time K-12 teacher earns $30 thousand a year. Now, suppose a new president gets elected, and implements the party’s campaign platform of legislating that teachers must be paid $45 thousand per year.

What would be the standard, econ textbook analysis of the impact of this new law on pay and employment of teachers? Explain, and illustrate your answer with a graph

4. (13 points) Suppose that for some time the US has engaged in relatively free trade in a product like lathe machines, which are used in factories to drill precise holes in metal, and that we import two thirds of our needs. Then, after an election, the new president gets a bill passed to tax those imports. Explain and illustrate with a graph what would be the impact of this new law on US prices, production, consumption, and imports.

Our textbook discusses three arguments for protectionism. Identify them, and discuss briefly their applicability to this case.

The median on this exam was 76 ; the high was 97.

**Econ 201 Exam #1 Fall, 2011** Professor Twomey Student Name:\_\_\_\_\_\_\_\_\_\_\_\_

The exam consists of two parts: multiple choice and short answers. The multiple choice questions are worth three points apiece, and the weight of the questions in the second half is indicated separately. Please answer on these sheets. For the multiple choice questions, circle the letter that corresponds to your answer. Please ask for clarification of any unclear question. Time: the entire class.

**Part II.** Answer on these sheets, using the back of the last sheet if you need more space.

1. (16 points) Identify the following with a sentence or at most two:
2. Offshore outsourcing
3. Normative economics
4. Self-regulating
5. Doha Round
6. (10 points) What three measures of the macro-economy tend to move together during the business cycle? Which way do they move during a downturn?

What was the suggestion of John Maynard Keynes about how the government should respond to a deep recession?

1. (10 points) What is the major goal of a minimum wage law?

What is the standard, economic textbook analysis of the effects of a minimum wage, on wages, employment, etc. Illustrate your answer with a graph.

1. (13 points) The United States currently imports a large fraction of the shoes we consume, without tariffs. What would happen to domestic prices, production, consumption, and imports of shoes, if our government were to place a tariff (tax) on imported shoes? Illustrate your answer with a graph.

The median on this exam was 70; the high was 97.

**Econ 201 Exam #1 Winter, 2011** Professor Twomey Student Name:\_\_\_\_\_\_\_\_\_

**Part II. Use the back of the last sheet if you need more space.**

1. Identify the following with a sentence or at most two (16 points):
2. Opportunity cost
3. WTO
4. Positive economics
5. Autarky

2. (10 points) a. Before the Great Depression, the conventional wisdom among economists and policy makers was that the economy is largely self-regulating. Was this view consistent or inconsistent with Keynesian economics? Explain briefly.

b. What effect did the Great Depression have on this conventional wisdom? Explain briefly.

c. Why do we consider a business-cycle expansion different from long-run economic growth?

3 (10 points) Suppose we elected some official whose policy was to keep the price of gasoline at $2/gallon (much less than today!). What is the standard textbook analysis of the effects of this policy? Explain, and illustrate your answer with a graph.

4. (13 points) In recent years, the United States has substantially increased its imports of textiles from China. Suppose, however, that as a result of political pressure, our government were to change its policy, and level a tariff against textile imports from China. Draw a graph, and use it to explain what would be the effect of such a policy on US textile prices, production, consumption, and imports.

The median on this exam was 80; the high was 100

**Econ 201a Exam #1** Fall, 2010 Professor Twomey Student Name: \_\_\_\_\_\_\_\_

Part 2 (Write on the bottom of the last sheet if you need more space)

1. Identify the following with a sentence or at most two: (16 points)
2. Offshore outsourcing
3. Normative economics
4. Production possibility frontier
5. Doha
6. (10 points) Suppose that the average wage for the university graduates was $9.00/hour, and that the university’s Job Placement Office decided to try to help the students by prohibiting any employer from coming to interview students unless the employer would offer $15.00/hour. What would be the standard, textbook analysis of the effects of such a policy on employment of the university’s graduates? Explain briefly, and illustrate your answer with a graph.
7. (13 points) Suppose that the United States imports most of the shoes we wear, and that a newly elected president decides to raise US employment by imposing a significant tariff on shoes (say, $20/pair). How will this action affect domestic production, consumption, prices, and imports of shoes? Explain briefly, and illustrate your answer with a graph.

One of the arguments for tariffs is the infant industry argument. Explain briefly what is meant by that argument, and comment on its potential validity to this particular case.

1. (10 points) Consider a “before and after situation,” let’s call them periods 1 and 2. In the period between 1 and 2, price of a certain product rises, and its quantity falls. Illustrate this situation with a supply and demand graph, indicating which line had to move which direction (left or right). In addition, identify changes in two factors which would cause the curve to move in the direction you have just described.

The median on this exam was 72. The high was 100.

**Econ 201 Exam #1b** Introduction to Macroeconomics Student Name: \_\_\_\_\_\_\_\_\_\_\_\_

**Part 2.**

1. Identify the following with a sentence or at most two: (16 points)
2. Positive economics
3. Invisible hand
4. NAFTA
5. Comparative advantage
6. (10 points) Suppose that the state government, in an effort to make university education more accessible to a broad range of students, ordered the state universities that they should not charge more than $100 per credit hour, which is lower than the current rate. According to the standard, textbook analysis, what would be the effect of this action on students and state universities? Explain briefly, and illustrate your answer with a graph.
7. (13 points) Suppose that the United States imports most of our cellphones, and that a newly elected president decides to impose a tariff on imported cellphones. How will this action affect domestic production, consumption, prices, and imports of cellphones? Explain your answer briefly, illustrating it with a graph.

Explain briefly what is meant by the infant industry argument for protectionism, and comment on its potential validity in this case.

1. (10 points) Consider a “before and after situation,” let’s call them periods 1 and 2. In the period between 1 and 2, price of a certain product falls, and its quantity falls. Illustrate this situation with a supply and demand graph, indicating which line had to move which direction (left or right). In addition, identify changes in two factors which would cause the curve to move in the direction you have just described.

The median on this exam was 79. The high was 97.

**Econ 201  Exam #1  Spring, 2010**  Prof. Twomey   Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_

Answer on these sheets. The multiple choice questions are worth three points apiece. The weight of the questions in Part II is indicated below. Please ask for clarification of any ambiguous questions. Time: 75 minutes. Class will resume at 1:10 pm.  Good luck!

**Part II.**

Identify the following with a sentence or at most two (16 points)

WTO

Business cycle trough

Positive economics

Production possibility frontier

(10 points)  Suppose an election brings into office someone who wishes to improve the living standards of department stores’ sales clerks . As a result, a law is passed making it illegal to pay these clerks less than $10/hour, even when the current rate is closer to $8.00/hour.

According to the standard market-based textbook analysis, what will be the impacts of that policy on wages, employment, etc. of sales clerks? Explain and illustrate with a graph.

(13 points) Consider US production, consumption and imports of petroleum (we currently import about 60% of our total consumption). Suppose that initially we had free trade, but that then there was a change in policy, and now the new situation is that there is an import tariff of 25%. Explain, and show on a graph, what would be the effects of that tariff on US production, consumption, imports, and prices of petroleum.

b. Our textbook discusses three arguments for protection. Identify two of them, and discuss them in the context of US petroleum imports. (Don’t try to give THE final judgment on them, just illustrate what those two arguments mean in this particular case)

(10 points) Before the Great Depression, the conventional wisdom among economists and policy makers was that the economy is largely self-regulating.

Was this view consistent or inconsistent with Keynesian economics? Explain

What effect did the Great Depression have on conventional wisdom?

Contrast the response of policy makers during the 2008/9 recession to the actions of policy makers during the Great Depression. What would have been the likely outcome of the 2008/9 recession if policy makers had responded in the same fashion as policy makers during the Great Depression? Explain briefly.

**The median on this exam was  80. The high was 94.**

**Econ 201a   Winter, 2010**  Professor Twomey     Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_

The multiple choice questions are valued three points apiece. Please circle the letter corresponding to the answer you select. If any question is unclear, please ask for clarification. Time: the entire class. Good luck!

Part II. Answer on these sheets, using the bottom of the last page if you need space.

Identify the following with a sentence or at most two: (16 points)

NAFTA

Deflation

Competitive market

Invisible hand

2. One of the arguments in favor of protection is to increase employment. Explain briefly what is meant by the other two arguments our textbook discusses: national security and infant industry. (8 points)

3. Suppose that the President, in his search to find a solution to expensive medical care, decides to impose price controls on medical care – for example, the cost of an operation that currently costs $1,000, cannot be more than $500.  What would be the textbook’s market-oriented analysis of the effects of such a policy on prices, supply and demand and the overall market for medical care? Explain, and illustrate your answer with a graph. (10 points)

4. (15 points).  Consider a country that initially has free trade in sweaters, and imports a substantial amount. Then after an election, a new government comes to power that decides to impose a tariff on imported sweaters. Explain, and illustrate with a graph, the various impacts of that decision on domestic prices, production, and consumption.

**Econ 201b     Winter, 2010**      Professor Twomey       Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

If any question is unclear, please ask for clarification. The multiple choice questions are valued three points apiece. Please circle the letter corresponding to the answer you select. Time: the entire class. Good luck!

Part II. Answer on these sheets, using the back of the last sheet if you need space.

Identify the following with a sentence or at most two: (16 points)

WTO

Self-regulating economy

Comparative advantage

Opportunity cost

(8 points) Draw a graph of a business cycle (being sure to label each axis), and identify the major points of interest on that graph.

. Suppose that a newly elected Congress decides that the country should encourage dairy production, and so they pass a bill to establish a price of $3.00 per gallon of milk, which is significantly higher than the current $2.00 per gallon. According to the market-based analysis expressed in our text, what will be the resulting impacts on domestic production and consumption of milk? Explain, and illustrate your answer with a graph. (10 points)

4.  (15 points).  Consider a country that initially has free trade in wheat, and imports a substantial amount. Then after an election, a new government comes to power that decides to impose a tariff on imported wheat. Explain, and illustrate with a graph, the various impacts of that decision on domestic prices, production, and consumption.

**Econ 201 Exam #1  Summer, 2009**   Professor Twomey    Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_

The exam consists of two parts: multiple choice and short answers. The multiple choice questions are worth three points apiece, and the weight of the other questions is indicated below.

Please answer on these sheets. For the multiple choice questions, circle the letter that corresponds to your answer.

Please ask for clarification of any unclear question. Time: one hour. Good luck.

Part Two: Short answer.

1. Identify the following with a sentence or at most two: (16 points)

a. Opportunity cost

b. Multifiber Agreement

c. Invisible Hand

d. Normative Economics

2. (20 points). Consider the market for television sets (TV’s) in the U.S.; suppose that initially we have some small amount of production, and that we import most of the TV’s that  we purchase. Then a newly elected government decides to impose a tariff on imported TV’s. Explain, and illustrate on a graph, the initial situation of production, consumption, and imports of TV’s, and then how that gets changed with the new tariff. (Label the axes of the graph!)

3. (13 points) Draw two separate graphs of the market for sunglasses. On the first graph, illustrate and explain briefly what happens to equilibrium price and quantity if incomes of consumers rises. On the second graph, explain and illustrate what happens to the equilibrium price and quantity of sunglasses if the costs of production decline due to an improvement in technology.

The median on this exam was 74. The high was 96.

**Econ 201     Exam #2      Summer, 2009**     Prof. Twomey       Student Name: \_\_\_\_\_\_\_\_\_

The exam consists of two parts: multiple choice and short answers. The multiple choice questions are worth three points apiece, and the weights of the other questions are indicated below. Please answer on these sheets, using the back of the last page if necessary. I have extra sheets for scratch paper, if you need them. For the multiple choice questions, circle the letter that corresponds to your answer. Please ask for clarification of any unclear question. Time: one hour. Good luck.

Part II.

Identify the following with a sentence or at most two: (16 points)

COLA

Efficiency Wage

Value Added

d. Labor force participation rate

2.  (10 points) Beyond seasonal unemployment, identify and explain briefly the three major types of  unemployment.

What is the natural rate of unemployment, and how does it relate to the types you have identified above?

(10 points) Fill in the blanks in the table.

|  |  |  |  |
| --- | --- | --- | --- |
| Period | Nominal  GDP | Real  GDP | GDP  Deflator |
| 1 | 400 |  | 95 |
| 2 | 500 | 500 | 100 |
| 3 | 800 | 650 |  |
| 4 | 900 |  | 150 |
| 5 |  | 800 | 170 |

Which period is the base period? \_\_\_\_\_\_\_

b. What is the rate of inflation between period 4 and period 5? \_\_\_\_\_\_\_\_\_\_\_

3. (13 points)  The textbook discusses three major factors determining the long-term growth in productivity.  Identify and discuss them briefly.

Many people might think that having natural resources is important for economic growth, but our book very clearly downplays this factor. Why?

Identify what is meant by infrastructure and property rights, and discuss briefly their roles in promoting economic growth.

The high on this exam was 94. The median on this exam was 72.

**Econ 201  Exam #3   Summer, 2009** Professor Twomey    Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_

As before, the exam consists of two parts; multiple choice, and short answer/graphs. For the multiple choice questions, please circle the letter corresponding to your answer. The multiple choice questions are weighted three points apiece, and the weights of the other questions are indicated. Please ask for clarification for any question that is not clear. Time: 75 minutes. Good luck!

II. 1. Identify the following with a sentence or at most two (16 points):

Financial intermediary

Medium of exchange

Fisher Effect

Automatic Stabilizer

 2.  (10 points) Assume the economy is in short-run macroeconomic

equilibrium at point E1 in the diagram at right. Based on the diagram, answer the following:

Is the economy facing an inflationary or a   recessionary gap? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

What policies can the government implement to bring the economy back to long-run equilibrium?

Illustrate your answer on that graph.

If the government decided not to intervene to close this gap, what would happen in the economy that

would eventually bring it back to long run equilibrium?  Explain and illustrate with a separate graph.

3 (10 points). Sallie Mae is a quasi-governmental agency that packages student loans into pools of loans and sells shares of these pools to investors as Sallie Mae bonds.

What is this process called? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

What effect will it have on investors compared to the situations in which they (the investors) could only buy and sell individual student loans?

C. Will the existence of Sallie Mae, and these actions increase or decrease the ability of students to get loans? Explain.

D. Suppose that a severe recession hits and, as a consequence, many graduating seniors cannot get jobs, and therefore default on their student loans. What effect will this have on Sallie Mae bonds?What will be the effect of this on the availability of student loans?

4 (13 points).  Consider a situation with stable prices, where the marginal propensity to consume is 0.75, and private sector investment spending increases by $200 billion. What will be the ultimate effect of this new spending on real GDP? Illustrate your answer with an AS-AD graph.

Consider now a situation in which the required reserve ratio is 0.8, and the Federal Reserve engages in an open market purchase of $300 billion. What will be the ultimate impact of this action on the money supply?

How will that change in the money supply affect Aggregate Demand? Illustrate your answer with a graph.

The high on this exam was  93. The median was 55.

**Econ 201   Exam #4 Summer, 2009** Professor Twomey   Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

In the multiple choice section, please circle the letter corresponding to your answer. Time: unlimited. If a question is unclear, please ask for clarification. Good luck.

**Part II**

Identify the following with a sentence or at most two (16 points):

Bretton Woods

 Monetary Neutrality

Taylor Rule

Global savings glut

(10 points). A. Draw the graph depicting the determination of the interest rate, using the liquidity preference model. Identify two factors that determine the demand for money, and state whether those factors would have to increase or decrease, in order for the demand for money to shift to the right.

b. Use the liquidity preference model to explain why the Federal Reserve has been increasing the money supply recently.

c. How does the concept of liquidity trap affect the logic of that policy?

(10 points). Draw a graph of the short run Phillips Curve,  being sure to label the axes.

Identify and explain very briefly whether each of the following will cause a shift of the Phillips curve, or a movement along it. Illustrate each answer with a separate graph, indicating ‘before’ and ‘after’ points.

The government decides to raise taxes in order to balance the budget

Recent elections bring to office someone who the general public believes will engage in inflationary policies

The price of oil falls dramatically

(13 points) Draw a graph of the determination of the equilibrium exchange rate between Japan (whose currency is the Yen (¥), being sure to label the axes. With regard to the S and D lines, identify the role played by US exports, and capital flows from the US to Japan.

What will be the effect of technological change in the US on the exchange rate? Illustrate with another graph

What will be the effect on the exchange rate of a reduction in interest rates in the US? Illustrate with another graph.

Suppose that, initially, the exchange rate was 200¥/$, and that after five years, the Japanese price index was at 120 (relative to the initial year), while the US price index was 140. According to the purchasing power parity theory, what should be the new equilibrium exchange rate?

The high on this exam was 94. The median on this exam was  48

**Econ 201                Exam #1a                Winter, 2008                   Professor Twomey**

Please PRINT your name on the BACK of the LAST sheet. Answer on these sheets, using the flip sides if necessary. Questions are equally weighted. Be sure to label the axes on the graphs. If any question is unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

Limited liability

Doha Round

Normative economics

Real interest rate

Positive externality

2a. Suppose a country initially has free trade, and then imposes a tariff on imports. Explain, and illustrate with a graph, the effect of the tariff on domestic production, consumption, and imports.

b. One of the arguments in favor of tariffs and protectionism is called the infant industry position. Explain this argument (illustrating it on the graph, if you wish).

3a Which socio-demographic groups experience the highest rates of unemployment, and increases in unemployment?

Identify two reasons why macroeconomists focus on (real) GDP as an indicator of a country’s well-being.

What are two criticisms of the use of GDP as an indicator of well-being?

a.ppose that the person who wins the presidential election later this year decides to resolve the country’s

health care problems by imposing a price freeze on medicines and medical services. Explain, and illustrate

with a graph, the standard economic analysis of the effects of such a policy.

b. Identify the three most important sources of the U.S. federal government’s Tax revenues. How does this differ from the most important sources for states and local governments?

5i. Fill in the blanks on the table.

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Nominal  GDP | Real  GDP | Price Index |
| 1 | 2,400 |  | 95 |
| 2 | 3,000 | 3,000 | 100 |
| 3 |  | 3,200 | 106 |
| 4 | 4,000 |  | 115 |
| 5 | 5,000 | 4,000 |  |

. What is the rate of inflation between periods 3 and 4? \_\_\_\_\_\_\_\_\_\_\_\_

What is the rate of growth of real income between periods 2 and 3? \_\_\_\_\_\_\_

Which is the base year? \_\_\_\_\_\_\_

ii. Which of the following will have an effect on the supply of automobile tires? If it does, will the supply curve move to the left or to the right?

A technological advance in the methods of producing tires

A decline in the number of firms in the tire industry

Higher gasoline prices lead people to take more public transport

An increase in the world price of rubber used to produce tires.

An increased enforcement of speed limits, leading people to get better mileage on their tires.

The high on this exam was 100; the median was  72

**Econ 201      Exam #1b Winter, 2008       Professor Twomey**

Please PRINT your name on the BACK of the LAST sheet. Answer on these sheets, using the flip sides if necessary. Questions are equally weighted. Be sure to label the axes on the graphs. If any question is unclear, please ask for a clarification.  Good luck! [lettering got mixed up]

1. Identify the following with a sentence or at most two:

Sole proprietorship

Smoot-Hawley

Positive economics

Value added

Negative externality

2a. Suppose a country initially has free trade,  and then imposes a tariff on imports. Explain, and illustrate with a graph, the effect of the tariff on domestic prices, production, consumption, and imports.

b. One of the arguments in favor of tariffs and protectionism is called strategic trade policy. Briefly explain this argument.

3a. Which socio-economic groups suffer from (unexpected) inflation?

Identify and explain briefly the two major valid criticisms of how the US measures unemployment.

In addition to seasonal unemployment, identify and explain briefly the major types of unemployment.

4a.. Suppose that the person who wins the presidential election later this year decides to keep down the price

of gasoline imposing a price freeze on gas for cars.  Explain, and illustrate with a graph, the standard  economic analysis of the effects of such a policy.

b. Identify the three most important areas of the U.S. federal government’s expenditures. How is this different from the most important types of spending for states and local governments?

5i. Fill in the blanks on the table.

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Nominal  GDP | Real  GDP | Price Index |
| 1 | 24,000 |  | 88 |
| 2 | 40,000 | 40,000 | 100 |
| 3 |  | 45,000 | 106 |
| 4 | 54,000 |  | 115 |
| 5 | 65,000 | 49,000 |  |

What is the rate of inflation between periods 3 and 4? \_\_\_\_\_\_\_\_\_\_\_\_

What is the rate of growth of real income between periods 2 and 3? \_\_\_\_\_\_\_

Which is the base year? \_\_\_\_\_\_\_

ii. Which of the following will have an effect on the demand for small automobiles, such as the Mini-Cooper or the Smart car? In cases where it does, will the demand curve move to the left or to the right?

Small automobiles become more fashionable.

The US enters into a recession, with our income falling

The cost of steel used in the production of cars increases

       d. In an effort to balance the budget, the government imposes a special tax on car purchases.

The high on this exam was 90; the median was 63.

Econ   201        First Exam    Fall, 2007  Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer on these sheets, using the flip sides if necessary. If any question is unclear, please ask for a clarification. Questions are equally weighted. Time: the entire class. Good luck!

Identify the following with a sentence or at most two:

Functional distribution of income

Non-tariff barrier

Doha Round

Functional Distribution of Income

Invisible Hand

2a. Describe two valid criticisms of how the U.S. government measures unemployment

b. Consider the production and supply of automobile tires.

Draw a graph of the supply curve, illustrating how an improvement in supply will shift the curve

Will the following cause a similar shift of the supply curve, or the opposite? (graphs not needed)

An increase in the price of rubber used in tire production

A decline in the number of firms in the tire industry

- The granting of a $2.00 per unit subsidy for each tire produced

3a Fill in the blanks in the table:

Year  Nominal GDP Real GDP    Price Index

1           400   65

2     600         70

3     500   500   100

4     610   550

5           600   120

6     900         130

Which is the base year? \_\_\_\_\_\_\_\_\_\_

What is the rate of inflation between period 1 and 2? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

What is the rat of growth of real GDP between period 3 and 4? \_\_\_\_\_\_\_\_\_\_\_\_\_\_

3b Besides seasonal unemployment, what are the three major types of unemployment? Explain each one with just a few words.

Economists study the question of which sectors of the society get hurt by phenomena like inflation and unemployment.

Which economic groups get hurt by (unexpected) inflation?

Which socio-demographic groups get hit by unemployment?

A related question is, suppose a newly elected government decided it wanted to help the labor market by imposing a minimum wage. Explain the standard economic analysis of the impact of minimum wage legislation. Illustrate your answer on a graph

5. Suppose the United States initially imported cell phones, but then for some reason (like an election) that policy changed to one of protectionism. Explain and illustrate with a graph the effect of this new policy on US producers, consumers, imports, government revenues, etc.

What is meant by strategic trade policy, how mightit relate to the case of protectionism for cell phones.

The median on this exam was 64. The high was 89.

Econ 201a              Exam #1      Winter, 2007        Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. Use the backs of these sheets if you need more space.  Be sure to label each axis on the graphs. Questions are equally weighted. Please ask for clarification if a question is unclear.  Time: the entire class.  Good luck!

Identify the following with a sentence or at most two: (20 points)

a) Value added

b)  Opportunity cost

c Smoot Hawley

d Fallacy of composition

e)  Regressive tax2a Fill in the blanks

Year      Nominal Real GDP    Price Index GDP

1        300                      65

2                     500         70

3     500            500         100

4    610             550

5                     600         120

6   900                            130

Which is the base year? \_\_\_\_\_\_\_\_\_\_

What is the rate of inflation between period 1 and 2? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

What is the rat of growth of real GDP between period 3 and 4? \_\_\_\_\_\_\_\_\_\_\_\_\_\_

2. Adam  Smith made two fundamental intellectual contributions in his famous book “The Wealth of Nations.”  Identify and describe briefly one of them.

3. What is meant by the natural rate of unemployment?

There are several valid criticisms of how the U.S. measures unemployment. Identify and explain briefly two of them.

Who – that is, what economic groups – suffer from unexpected inflation? Identify two examples.

4a. The textbook describes several factors that determine the supply of a particular product. Identify three of them, and specify how they would have to change in order to cause the supply curve to move to the right.

Identify two of the major sources of government revenues (that is, two of the main taxes), and then identify two of the major outlays of government expenditures.

Identify one important source of revenue, for either states or for local governments (in the US), and one important area of expenditure.

5a.  Consider the fact that the United States imports shoes. Suppose that initially we have free trade in shoes, but then after a new election we impose tariffs on imported shoes. Draw a graph of the market in the U.S. for shoes, and identify and discuss the effects on the US economy of imposing a tariff.

b. What is meant by the infant industry argument? In what sorts of circumstances might it be valid for the US?

The median on this exam was 71, the high was 100

Econ 201b              Exam #1        Winter, 2007                Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. Use the backs of these sheets if you need more space.  Be sure to label each axis on the graphs. Questions are equally weighted. Please ask for clarification if a question is unclear.  Time: the entire class.  Good luck!

1.Identify the following with a sentence or at most two: (20 points)

a) COLA

Limited Liability

 Doha Round

 Distinction between government purchases and transfers

e)  Normative economics

2a Fill in the blanks:

Year  Nominal GDP   Real GDP    Price Index

1         7,000                                          85

2                                  8,600                 90

3          10,000            10,000              100

4         12,000             11,000

5          15,000                                        130

6                                  13,000              180

Which is the base year? \_\_\_\_\_\_\_\_\_\_

What is the rate of inflation between period 1 and 2? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

What is the rat of growth of real GDP between period 2 and 3? \_\_\_\_\_\_\_\_\_\_\_\_\_\_

An important issue that is raised in the measurement of unemployment is the “discouraged worker.” What is meant by this term, and why is it important in this context?

3 a. What is meant by the natural rate of unemployment?

Which socio-demographic groups tend to experience the highest levels of unemployment and to get hardest when overall unemployment rises?

c. Economists focus on the level of (real) GDP as an indicator of national well-being. Nevertheless, there are several criticisms of GDP as an indicator of welfare. Identify three different criticisms, explaining each briefly.

4a.  What do economists mean when they say that “price floors and ceilings stifle the rationing function of prices and distort resource allocation?” Explain briefly.

b. Explain how, if at all, each of the following events affects the location of the production possibilities curve. (Graphs are helpful, but not necessary)

-a. Standardized examination scores of high school and college students decline, indicating that our students are not learning as much as before.

- b. The unemployment rate falls from 9 to 6 percent of the labor force.

- c. A new technique improves the efficiency of extracting copper from ore.

5. The United States imports most of the watches we consume. Draw a graph of the supply and demand for domestic watches in this country. Now suppose that a newly elected government decides to impose tariffs on imported watches. How will that affect the local economy, as far as watches are concerned. Illustrate your answer on the graph.

b. What is meant by the term non-tariff barriers? Give an example. What might be the importance of these in today’s economy?

The median on this exam was 73, the high was 97

Econ 201b              Exam #1               Fall, 2006           Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. Use the backs of these sheets if you need more space. Questions are equally weighted. Please ask for clarification if a question is unclear.  Time: the entire class.  Good luck!

Identify the following with a sentence or at most two:

Comparative Advantage

Doha Round

Fallacy of composition

Positive economics

NTB

2a. Besides seasonal unemployment, what are the three major types of unemployment?

b   In its discussion of the effects of inflation, the textbook distinguishes two types of inflation, cost push and demand pull. Identify each one; graph is optional.

c. According to our textbook, what is the most important consideration in identifying who gets hurt by (unexpected) inflation?

3a.  Consider an initial situation in which a country that is not advanced technologically (call it Paraguay) imports electronic cameras. Then after an election, its new Congress decides to impose a tariff on cameras. Explain, and illustrate with a graph, the effect of this policy on Paraguayan production, consumption, and imports.

3b. One important aspect of the debate about tariffs and protectionism is the “infant industry” argument.

Explain that argument, and comment about its validity in the situation of the cameras for a country like Paraguay.

4a. Explain briefly two valid criticisms of the way unemployment is estimated in the US.

b. What is the basis for the difference between sole proprietorships and corporations?

c. Suppose that with winter (and elections) approaching, the government wanted to gain support by decreeing a price for snow shovels of $2.00/shovel (the real price is rather higher). According to the textbook’s market analysis, what would be the effects of this policy?

5a. Fill in the blanks in the table

Year Nominal GDP    Real GDP      Price Index

1    6,000                        80

2                   7,800         95

3     8,000         8,000        100

4     8,400          8,200

5                 14,100        150

6     30,000       20,000

What is the rate of growth of real GDP between periods 3 and 4? \_\_\_\_\_\_\_\_\_\_\_\_\_

What is the rate of inflation between periods

           1 and 2?\_\_\_\_\_\_\_\_

c. What is the base year? \_\_\_\_\_\_\_\_\_\_\_

b The major source of revenue for the US federal government is the personal income tax.

What are the next two most important sources of revenue?

What is the major source of revenue for state governments?

What is the major source of revenue for local governments?

The median on this exam was 69, the high was 98

Econ 201  Fall 2005        Exam #1           Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using

the flip sides if necessary. Please ask for clarification of any question that is

unclear.  Questions are equally weighted. Time: the full class.  Good luck!

     1.     Identify the following with a sentence or at most two:

     a.     GATT

     b.     Progressive Tax

     c.     Spillover cost

     d.     Most favored nation

     e.     Cost-push inflation

2. Suppose a "Third World" country like Brazil was initially engaged in free trade of the  product we'll call video games. Then a new president came to power, and imposed tariffs on the importation of these items. Explain and illustrate with a graph how this policy  would affect Brazilian production, consumption, etc. of video games.

According to standard economics, who in Brazil would benefit, and who would be hurt by this policy?     Would the "infant industry" argument apply to this case? Explain your answer briefly.

3a. Suppose that for some reason, such as destruction caused by a natural disaster, that there was a big demand for construction materials, whose price consequently started to rise. Now, suppose that a government official decided to respond to this price increase

by imposing price controls. Describe, and illustrate with a graph, the standard economic analysis of the imposition of price controls, in a situation such as this.

b. What is the difference between government purchases and government transfers? In terms of their size relative to GDP in the US, are either or both of them rising, or falling since 1960?

4. Some questions about unemployment in the United States.

a. Besides issues such as statistical sampling errors and incorrect information from the informants, identify two main criticisms of the unemployment rate as it is measured in this country.

b. In addition to seasonal unemployment, economists distinguish three types of unemployment.

Identify and discuss each one briefly, indicating what the government might do to reduce it.

c. What is meant by the natural rate of unemployment? Has it been rising, falling, or constant since the 1990s? What explanation(s) are offered for this behaviour?

5i.  Fill in the blanks in the table

Year   Nominal GDP Real GDP      Price Index

1       7,000       7,500          \_\_\_\_\_\_

2.      8,000       8,000           100

3      11,000       \_\_\_\_\_             130

4      \_\_\_\_\_       16,000             135

5     21,000      15,000            \_\_\_\_\_

      a.Which year is the base year? \_\_\_\_\_\_\_\_

b.What is the rate of inflation between years three and four?\_\_\_\_\_\_\_\_\_\_\_

c.What is the rate of growth of real GDP between years 1 and 2? \_\_\_\_\_\_\_\_\_\_\_\_

ii. It is suggested that GDP is a useful measure of a country's welfare. Explain

briefly why this might be true.

iii. There are some well-known limitations to the use of GDP as an indicator of welfare.  Identify and explain briefly two of them.

iv. What is meant by the GDP gap, and why is it important?

The median on this exam was 58, the high was 84.

Econ 201        Exam #1a        Winter, 2005    Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using the flip sides if necessary. Questions are equally weighted. Be sure to label the axes on the graphs. If any question is unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Most favored nation

b) COLA

c) Consumption of fixed capital

d) Okun's Law

e) Invisible hand

2a. Fill in the blanks:

YearNominal GDP     Real GDP  Price Index

1       \_\_\_\_\_\_         3500        82

2           3344    \_\_\_\_\_\_           88

3         4000       4000           100

4         4410       4200         \_\_\_\_\_\_

5         4945      \_\_\_\_\_\_          115

6          \_\_\_\_\_\_    4600            130

What is the base year? \_\_\_\_\_\_\_\_

What is the rate of growth of income between years 2 and 3? \_\_\_\_\_\_

What is the rate of inflation between years 4 and 5? \_\_\_\_\_\_\_\_\_\_\_\_\_

3a. In the US today there is concern over the rising cost of medical care, and one suggested remedy is to place limits on prices of medicines. What is the standard economic analysis of the effects of such a policy? Illustrate your answer with a graph.

b. Select three different socio-economic groups, and state whether their average rates of unemployment are higher or lower than the national average.

4a. Why do economists focus on GDP as an indicator of a society's welfare?

Identify three criticisms or weaknesses of using GDP as an indicator of welfare

b.  What is the difference between durable and non-durable consumer goods, and why is there a difference in the impact of the business cycle on the industries producing these two types of goods?

c. Consider the following data on consumption in an economy, in billion dollars. What is the value of the MPC?

Consumption         4500 4900 5300 5700 6100

Disposable Income   4500 5000 5500 6000 6500

5 a. Consider the market in the US for production and consumption of automobiles. Suppose the US goes from a policy of free trade to one using tariffs for protectionism. How will that change in policy affect US production, consumption, imports, etc. Explain and illustrate your answer with a graph.

b. If the European euro were to decline in value (depreciate) in the foreign exchange market, would it be easier or harder for the French to sell their wine in the United States? Suppose you were planning a trip to Paris. How would depreciation of the euro change the dollar cost of your trip?

The median on this exam was 65; the high was 84

Econ 201      Exam #1b          Winter, 2005              Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using the flip sides if necessary. Questions are equally weighted. Be sure to label the axes on the graphs. If any question is unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Value added

b) NTB

c) Opportunity Cost

d) GATT round

e) Smoot Hawley

2a. Fill in the blanks:

YearNominal GDP Real GDP Price Index

1         711     \_\_\_\_\_\_\_    90

2         800     800        100

3         1066    820       \_\_\_\_\_\_

4         1207    \_\_\_\_\_\_\_    140

5        \_\_\_\_\_\_    900        145

6         1550    1000       \_\_\_\_\_\_

What is the base year? \_\_\_\_\_\_\_\_

What is the rate of growth of income between years 2 and 3? \_\_\_\_\_\_\_\_\_\_\_\_

What is the rate of inflation between years 4 and 5? \_\_\_\_\_\_\_\_\_\_\_\_\_

3 i. Consider the market for bread. How will each of  the following affect S and D, and therefore price and output, of bread? Illustrate each answer with a graph.

A) There is an improvement in the method of  producing bread.

B) Consumers' incomes rise

C) Government institutes a sales tax on bread

D) The price of wheat falls

ii. Evaluate how each of the following individuals would be affected by

 unanticipated inflation of ten percent per year. Explain your answer real briefly.

a) A pensioned railway worker

b) A heavily indebted farmer

c) A department store clerk

d) A unionized automobile assembly line worker

4a. Identify and explain briefly two valid criticisms of how unemployment is measured in the US

b. For each of the two sectors of our government, what are two major sources of tax revenue, and two major areas of expenses.

           Federal               State and Local

Tax revenue

Expenditures

c. Consider the following data on consumption and disposable income.

What is the value of the MPC?

Consumption         38   41   44   47

Disposable Income   44   48   52   56

5. Consider the market in the US for the production and consumption of steel. Suppose the US shifts from a policy of free trade in steel, to one using tariffs for protectionism.

 How will that change in policy affect US production, consumption, imports, etc. Explain and illustrate your answer with a graph.

Evaluate three of the following five statements, explaining briefly your reasoning.

A. Protective tariffs reduce both the imports and the exports of the nation that levies the tariffs.

B) Foreign firms that "dump" their products onto the U.S. market are in effect providing bargains to the country's citizens.

C) Unemployment in some industries can often be reduced through tariff protection, but by the same token inefficiency typically increases.

D) The extensive application of protective tariffs destroys the ability of the international market system to allocate resources efficiently.

E) In view of the rapidity with which technological advance is dispersed around the world, free trade will inevitably yield structural maladjustments, unemployment, and balance of payments problems for industrially advanced nations.

The median on this exam was 79; the high was 98

Econ 201     Exam #1      Fall, 2004 Prof. Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally

weighted. Be sure to label the axes on the graphs. If any question is

unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Doha Round

b) Smoot-Hawley

c) Depreciation of the dollar

d) Limited Liability

e) Value added

2. Consider an initial situation where the United States imports cellular

telephones with no tariffs. Then a new government is elected, and decides

to impose tariffs on imported cellulars. Explain and illustrate on a

graph what would be the effect of this measure on US production,

consumption, imports, etc.

b. What is the infant industry argument, and how does it relate to a

situation like the one described above? Explain briefly.

3a. Fill in the blanks:

Year   Nominal Real Price

       GDP     GDP  Index

1      800     900  \_\_\_\_\_\_

2      850     \_\_\_\_\_     98

3      950     950  100

4      \_\_\_\_\_\_       1,000     106

5      1,100        1,050     \_\_\_\_

6      1,400        \_\_\_\_\_     120

7      \_\_\_\_\_        1,500     130

b. What is the base year? \_\_\_\_\_\_\_\_\_\_\_\_

c. What is the rate of inflation between periods 6 and 7? \_\_\_\_\_\_\_\_\_

What is the rate of growth of nominal GDP between periods 1 and 2? \_\_\_\_\_\_\_\_\_\_\_\_\_

b. GDP may be the best available indicator of a country's well-being, but

its use is certainly subject to criticism. Explain briefly two

shortcomings on the use of GDP as an indicator of a country's well being.

4a. One topic that often comes up in an election year is what the

government can and should do to hold down inflation. This year, there is

much concern expressed about the cost of medical care.

-Suppose the president who gets elected in November were to impose a

price

ceiling on medical care. According to a straightforward market analysis,

what would be the effects of this policy on producers and consumers?

-Explain and illustrate with a graph.

b. Which taxes are the major sources of the federal government's

revenues?

What is meant by the term progressive tax? Are the taxes mentioned above

progressive, or not. Explain briefly.

5a. In addition to seasonal unemployment, what are the three major

categories of unemployment? For each one, describe briefly what actions

the government could take in order to reduce it.

b. Identify and explain briefly two criticisms of the way the U.S.

measures unemployment.

The  median on this exam was 67; the high was 99

Econ 201       Exam #1a   Winter, 2004             Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. The weight of each questions is

indicated. Be sure to label the axes on the graphs. If any question is

unclear, please ask for a clarification. Time: the entire class.  Good

luck!

1. Identify the following with a sentence or at most two:

a) Capital consumption allowance

b) Post hoc ergo propter hoc

c) Rationing function of prices

d) Limited liability

e) Medium of exchange

2). (20 points). a. Identify and explain briefly two criticisms of the way

the US measures unemployment.

b. Which socio-demographic groups have higher than average unemployment in

the U.S.?

3. (10 points) A distinction is made between inflation caused by cost push

factors, and inflation caused by demand pull. Illustrate this difference

with a pair of graphs, indicating for each graph one economic factor that

can cause the indicated movement in the curves.

4). (10 points)  State in one or at most two sentences, what is meant by

the theory of comparative advantage.

5). (15 points) How will each of the following individuals be affected by

an unanticipated increase in inflation of ten percent per year? Explain

each answer real briefly

a) A retired railroad worker with a fixed pension

b) A department-store clerk

c) A heavily indebted farmer

d) The owner of an independent small-town department store

e) A unionized auto mobile assembly-line worker

6. (10 points) What are the three major types of businesses in the U.S.?

7. (15 points) a. Fill in the blanks in the table.

Year     ,Nominal   Real      Price

                ,GDP    GDP,     Index

1983,       3537,    4426,      80

1984,      \_\_\_\_\_,   4744,      83

1985,        4220,   4940,    \_\_\_\_\_

1986,       4463 ,   5111,      87

1987,        4740,   \_\_\_\_\_,    90

1990,        5803,   5803,    100

1991,        5996,   5794,    103 etc.

b.What is the base year?\_\_\_\_\_\_\_\_\_

c. What is the rate of inflation between 1983 and 1984? \_\_\_\_\_\_\_\_\_\_

d. What is the rate of growth of real GDP, between 1990 and 1991?\_\_

e. What is the rate of growth of real GDP between 2002 and 2003?\_\_\_

What is the rate of inflation between 2002 and 2003? \_\_\_\_\_\_

The median on this exam was 69; the high was 97

Econ 201     Exam #1b     Winter, 2004     Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using the flip sides if necessary. The weights of the questions are indicated. Be sure to label the axes on the graphs. If any question is unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two: (20 points)

a) Fiscal Federalism

b) Law of increasing opportunity cost

c) Consumer sovereignty

d) Fallacy of composition

e) Positive economics

2. (20 points) a. What is Okun's Law? According to it, if real GDP falls

by 4%, by how much (and in which direction) does unemployment change?

b. For the Federal Government, and the State governments, what are two

major sources of tax revenue, and two major areas of spending?

              Federal        State

Spending

Taxes

3. (10 points) In addition to seasonal unemployment, what are the three

other types of unemployment? For each one, what actions could the

government take to lower that unemployment?

4. (10 points) GDP is often considered an indicator of a country's

welfare. Nevertheless, several criticisms of using GDP for this purpose.

Identify and explain real briefly three such criticisms of the use of GDP

as an indicator of welfare.

5. (15 points) a. Fill in the blanks.

Year         ,Nominal        Real           Price

                     GDP,         GDP,          Index

1987,           4740,         \_\_\_\_\_,           90

1990,           5803,          5803,          100

1991,           5996,          5794,          103

1992,           \_\_\_\_,          5986,          106

1993,           6657,         6147,           108

1994,           7072,          6394,          111

1996,           7817,          \_\_\_\_,          115

1997,          8304,          7103,           117

1998,          8747,          7400,           118

1999,          9268,          7729,         \_\_\_\_\_

2000,         9817,           8012,         123      Etc.

b.What is the base year?\_\_\_\_\_\_\_\_\_

c. What is the rate of inflation between 1983 and 1984? \_\_\_\_\_\_\_\_\_\_

d. What is the rate of growth of real GDP, between 1990 and 1991?\_\_\_

e. What is the rate of growth pf real GDP between 2002 and 2003?\_\_\_

f. What is the rate of inflation between 2002 and 2003?\_\_\_\_\_\_\_\_

6. (15 points) Which of the following are included in the calculation of

the current year's GDP? Explain each answer briefly.

a) Interest on an AT&T bond

b) The income of a dentist

c) The money received by Smith when she sells her economics textbook back

to the book buyer

d) The monthly allowance a college student receives from home

e) Rent received on a small apartment

7. (10 points) In national income accounting, there are three major

categories representing how (or, into what ends) households distribute

their income. What are those categories? Very roughly, what are their

relative sizes?

The median on this exam was 79; the high was 95

Econ 201        Exam #1   Fall, 2003                Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted.

Be sure to label the axes on the graphs. If any question is unclear,

please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Medium of exchange

b) Fiscal Federalism

c) COLA

d) Functional Distribution of Income

e) Frictional Unemployment

2. GDP is often referred to as an indicator of a country's welfare. What

does that mean? Nevertheless, there are limits on the usefulness of GDP as

an indicator of welfare. Identify and describe briefly three. Finally,

what is meant by the term comparative advantage? What important assumption

is made in developing this theory?

3a. Economists distinguish between cost push and demand pull inflation.

Explain these ideas, illustrating each one with a graph.

b. What is meant by limited liability? Is this true of corporations or

sole proprietorships? What important economic fact is determined by your

answer to the above question?

4a.  Fill in the blanks. (If you didn't bring a calculator, leave the

answer in the form of 6/3)

                Period    Nominal                Real        Price

                                GDP        GDP        Index

                1              8,500      8,800      \_\_\_\_\_\_

                2              9,000      9,000      100

                3              10,600   \_\_\_\_\_        110

                4              \_\_\_\_\_        11,000   125

                5              15,000   \_\_\_\_\_        140

                6              27,600   15,333   \_\_\_\_\_

b) What is the rate of inflation between period  4 and period 5? \_\_\_\_\_\_\_\_\_\_

c) What is the rate of growth of real income between Period 1 and period 2? \_\_\_\_\_\_\_\_\_\_\_\_

d) What is the base year? \_\_\_\_\_\_\_\_\_\_\_\_

e. What are the two most important areas of outlays for the Federal Government?

What are the two most important areas of outlays for Local governments?

5. The measurement and interpretation of unemployment is a very important

task for economists.  A). In the United States, what are the major

demographic-socio-economic groups that have higher than average

unemployment? B). What are two criticisms of the way unemployment is

measured in the U.S.? C). Which economic groups get hurt by inflation?

Illustrate with an example or two.

The median on this exam was 74. The high was 100

Econ 201 Exam #1 Winter, 2003 Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted.

 Be sure to label the axes onthe graphs. If any question is unclear, please

ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Real interest rate

b) Human Development Index

c) Labor Force Participation Rate

d) Human Capital

e) Efficiency Wage

2a. Fill in the blanks.

        Nominal GDP      Real GDP  Price Level

1         7,500          \_\_\_\_\_\_\_\_\_ 95

2     8,000         8,000          100

3         \_\_\_\_\_\_\_\_       8,200          110

4 9,000        8,300          \_\_\_\_\_

5         \_\_\_\_\_\_\_        8,500          128

6 12,000       \_\_\_\_\_          140

7    \_\_\_\_\_\_         10,000         150

                                                                                                              What is the rate of growth of real income between periods 3 and 4?

What is the rate of inflation between periods 6 and 7?

B) Real GDP is often used as an indicator of a country's welfare. State

and explain briefly two reasons why GDP might be a good indicator.

Nevertheless, there are also criticisms of the use of real GDP as an

indicator of a country's welfare. State and explain briefly two such

criticisms.

3. The textbook (and class lectures) emphasized that different groups of

the society get hurt when the economy has unemployment, as compared to

those who are affected when the economy has inflation. These groups can

usefully be identified by social or demographic or economic

characteristics.

a) Who gets hurt when there is a burst of inflation?

  Worldwide and also for the U.S.--what was the difference in inflation

rates before 1900 and after 1900? Explain briefly

b) Who gets hurt when there is unemployment?

What was the major trend of unemployment rates in the U.S.  for the period

1950-1990?

4a. One important issue currently facing the US economy is the rising cost

of healthcare.  One solution that some have proposed to this problem is to

have the government place a price ceiling on medicine. Explain and

illustrate with a graph the standard economic analysis of the effects of a

price ceiling (or price controls, or a price cap) on medicine.

b. Identify two of the major sources of tax revenue for the US federal

government, and two major sources for the State and Local governments.

c. Distinguish between (among) gross investment, net investment, and total

capital. Which is most unstable?

5a. Distinguish between discouraged workers and cyclically unemployed.

b) The sum of frictional and structural unemployment is sometimes called

the natural rate of unemployment. Economists explain the natural rate by

using terms that cut across the frictional-structural classification, and

refers to them as the two fundamental causes of unemployment. What are

these two causes?

c) For each one, identify one economic factor that will make it change.

\d) For each of these two causes of unemployment, identify a government

policy (different from your answer in (c) above) that will affect it, and

explain briefly what the government should do that could lead to a

reduction in unemployment.

The median on this exam was 48; the high was 88

Econ 201         Exam #1a     Fall,  2002              Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally

weighted. Be sure to label the axes on the graphs. If any question is

unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Transition economies

b) Functional distribution of income

c) Ricardo-Barro effect

d) Real interest rate

e) Value added

2a. Our textbook has a graph describing changes in labor force

participation rates by gender in the U.S. over the last forty years.

How have these rates changed? What are the major explanations for

those changes?  Has the overall labor force participation rate

increased or decreased?

B) Economists in the U.S. distinguish between job losers and job

gainers. Define each one, identifying the difference between them

   Which category, job losers or job gainers, involves a larger number of people?

   Which category is more unstable, as a fraction of the labor force?

3. Consider the joint determination of savings and investments, in

what is sometimes called the market for loanable funds. Draw a graph

of this market, being careful to label the axes.  What happens to that

equilibrium if a there is an increase in disposable income? Explain

and illustrate on a separate graph. What happens to that equilibrium

if the government decides to increase expenditures, resulting in a

government deficit that is covered by borrowing? Explain and

illustrate on a separate graph.

4. Two island economies, Cocoa Island and Plantation Island, are

identical in every respect except one.  A survey tells us that when

Cocoa Island is at full employment, the population as a whole spends

1,000 hours per week in job search, while when they are at full

employment, the population of Plantation Island spends 2,000 hours per

week in job search.  Which economy has:

a) the lower level of the natural rate of unemployment?

b) the higher level of potential GDP?

Now, suppose that on Cocoa Island the government sets a minimum wage above their equilibrium wage.

Explain how and why this affects their :

a) average real wage

b) Level of natural unemployment.

c) Amount of job rationing.

5a. Fill in the blanks.

   Nominal GDP  Real GDP  Price Level

1         8,500          \_\_\_\_\_\_\_\_\_     95

2     9,000         9,000          100

3         \_\_\_\_\_\_\_\_       9,200          110

4 9,600        9,400        \_\_\_\_\_

5 ---------         9,500          120

6 10,000       \_\_\_\_\_\_\_\_\_   125

What is the rate of growth of real income between periods 3 and 4?

What is the rate of inflation between periods 5 and 6?

b) The Unemployment rate is one of the most closely watched indicators

of the health of the economy. Nevertheless, its measurement has been

subjected to some criticisms. Identify and explain briefly two

criticisms of how we measure unemployment in this country.

c) Identify two major areas of expenditures for the Federal

government, and for State/Local governments. For each of these two

levels of government, identify their two biggest sources of tax

revenue

The median on this exam was 67, the high was 92

Econ 201                        Exam #1b         Fall,  2002                    Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using the flip sides if

necessary. Questions are equally weighted. Be sure to label the axes on the graphs. If any question is

unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Human Development Index

b) Labor Force Participation Rate

c) Personal distribution of income

d) Classical Dichotomy

e) Efficiency wage

2a. When discussing unemployment, economists distinguish between job

losers and job leavers. Explain the difference.  In the U.S., which

category is numerically larger?  Which is more unstable? b). Labor

economists also distinguish several types of unemployment, one of

which is seasonal. What are the other three types of unemployment, and

for each of them, identify a government policy that has been

recommended to reduce that type of unemployment.

3. Consider the joint determination of savings and investments, in

what is sometimes called the market for loanable funds. Draw a graph

of this market, being careful to label the axes.

What happens to equilibrium if a collapse of the stock market causes

private sector wealth to decline? Explain and illustrate on a separate

graph.

What happens to that equilibrium if the government decides to decrease

expenditures, resulting in a government surplus? Explain and

illustrate on a separate graph.

4. Two island economies, Cocoa Island and Plantation Island, are

identical in every respect except one.  A survey tells us that when

Cocoa Island is at full employment, the population as a whole spends

1,000 hours per week in job search, while when they are at full

employment, the population of Plantation Island spends 2,000 hours per

week in job search.  Which economy has:

a) the greater level of potential GDP?

b) the higher real wage rate?

Now, suppose that on Cocoa Island the government sets a minimum wage above

 their equilibrium wage. Explain how and why this affects their :

a) Level of potential GDP.

b) Level of natural unemployment.

c) Amount of job rationing.

5a. Fill in the blanks.

        Nominal GDP      Real GDP  Price Level

1         7,500          \_\_\_\_\_\_\_\_\_ 95

2     8,000         8,000          100

3         \_\_\_\_\_\_\_\_       8200      110

4 8,500        8,300          \_\_\_\_\_

5         \_\_\_\_\_\_\_        8,500          120

6 9,000        \_\_\_\_\_          125

What is the rate of growth of real income between periods 3 and 4?

What is the rate of inflation between periods 5 and 6?

Real GDP is often used as an indicator of a country's welfare. State and

explain briefly two reasons why GDP might be a good indicator.

Nevertheless, there are also criticisms of the use of real GDP as an

indicator of a country's welfare. State and explain briefly two such

criticisms.

The median on this exam was 73, the high was 94

Econ 201     Exam #1a        Winter, 2002                   Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted.

Be sure to label the axes on the graphs. If any question is unclear,

please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Human Development Index

b) Discouraged worker

c) Net Investment

d) Functional distribution of income

e) Potential GDP

2a. Fill in the blanks in the table:

           Nominal GDP       Real GDP              Price

1              2400                                   95

2             2500                 2500              100

3            3220                   2800

4           4000                                      130

5                                    4000              140

Which year is the base year?

c. What is the rate of inflation between year 4 and year 5?

d. What is the rate of growth of real GDP between years 2 and 3?

e. On an entirely different topic, in terms of broad areas of spending, what are two of the most important categories of spending by the US federal government, and two for State and Local governments

3a. Economists typically oppose government intervention in the operation

of markets. An important example is the operation of the labor market, and

the various impacts of legislation imposing a minimum wage. Explain,

illustrating your argument with a graph, the standard economic analysis of

the effects of a minimum wage on the labor market.

b. When labor economists analyze the natural rate of unemployment, and

reasons why it might vary, they use two categories: job search and job

rationing. Identify and explain briefly two components of job search.

4a. GDP is often used as an indicator of the well-being of the national

economy, both by economists and by politicians. Yet there are several

well-known limitations on the usefulness of GDP as an indicator of

welfare. Identify and explain briefly three of them.

b. There are four categories, or types of unemployment. One of them is

seasonal unemployment. Identify the other the other three, indicating how

the government might try to reduce them, if that would be useful.

5. Would the following be expected to affect aggregate supply or aggregate

demand? Explain each answer briefly, illustrating each one with a graph.

a. The government decides to increase spending on internal security

b.  Due to an improvement in the educational levels of their workers,

Mexico produces more at home and buys fewer goods from the U.S.

c. Labor productivity rises due to the accumulated effect of improved

education Finally, what is meant by crowding out? Illustrate your answer

with a graph.

The median on this exam was 58; the high was 100.

Econ 201            Exam #1b     Winter, 2002        Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted.

Be sure to label the axes on the graphs. If any question is unclear,

please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Classical dichotomy

b) Value added

c) Personal distribution of income

d) Real interest rate

e) Transition economies

2a. Fill in the blanks in the table:

         Nominal GDP      Real GDP       Price

1                                    3800               96

2           4000                4000               100

3           4510                5100

4           5500                                       130

5                                    6000              140

b. Which year is the base year?

c. What is the rate of inflation between year 4 and year 5?

d. What is the rate of growth of real GDP between years 1 and 2?

e. What are two of the most important sources of revenue for the US

federal government, and two of the most important sources for State and

Local governments?

3a. One of the most important indicators of the state of the economy is

the unemployment rate. Yet there are several criticisms of how it is

currently being measured in the US. Identify and explain briefly two of

those criticisms.

b. Would the following be expected to affect Savings or Investments?

Explain briefly, and illustrate each answer with a graph.

i) An increase in personal income

ii) A decline in expected profits

iii) An upswing in the business cycle results in production close to

capacity

4a. It is widely known that economists typically oppose government

intervention in markets. A broad category of such interventions is known

as price ceilings, and these have been utilized in cases such as rent

control, the price of gasoline, or the recent energy crisis in California.

Explain the economic analysis of the difference between a free market and

a controlled price for a case such as rented apartments, illustrating your

answer with a graph.

b. There is growing acceptance amongst labor economists that the natural

rate of unemployment may not be constant, but in fact changes due to

factors that are often classified under two headings; job search and job

rationing. What is meant by job rationing, and what would be two different

causes of it? Explain breifly, and illustrate with a graph.

5a. Will the following affect aggregate supply or aggregate demand in the

US?  Explain and illustrate each answer with a graph.

i. The price of oil rises due to political events in the Middle East

ii. The government decides to cut spending on social programs helping the poor

iii. Bad weather in Europe leads the Europeans to import more wheat from

the U.S.

b. Unemployment does not affect the same all groups in society. Which

socio-demographic groups tend to have higher rates of unemployment?

Identify at least two. (No explanations needed).

The median on this exam was 58; the high was 76

Econ 201        Exam#1a    Fall, 2001  Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted.

Be sure to label the axes on the graphs. If any question is unclear,

please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Real interest rate

b) Human Capital

c) Functional distribution of income

d) Natural rate of unemployment

e) Labor force participation rate

2a. If unemployment were to rise, which socio-demographic-economic groups

would experience the biggest increase?

b. The measurement of unemployment is difficult. Identify and

explain briefly two criticisms of the way the US measures unemployment.

c. Why is it important to know if the natural rate of unemployment is

constant?

3. Would the following affect aggregate supply or aggregate demand? If

aggregate supply, would they affect the labor market or productivity?

Explain and illustrate each answer with a graph.

A. People realize that automobiles produced overseas are of higher quality

than domestically produced cars, and US imports rise.

B. The government eliminates regulations on environmental controls.

C. Greater use of the internet permits jobseekers to find employment more

quickly.

D.  The reduction of international political problems leads businesses to

think that prosperity will increase.

4a . Fill in the blanks in the table.

Year          1     2     3      4

Nominal GDP \_\_\_\_   4200   4800  5600

Real GDP    4000   4200   \_\_\_   4800

Deflator      95    100  110    \_\_\_\_

b. What is the rate of growth of real GDP between period 1 and period 2?

c.  What is the rate of inflation between period 1 and period 2?

d. In this example, what is the base year?

E. In the above example, would we normally expect unemployment to increase

or decrease between years 1 and 2?

F. Distinguish between the CPI and the GDP deflator.

5a. What are the major sources of tax revenue for the Federal government,

and for the State and Local governments?

b. Draw a graph of the determination of equilibrium between saving and

investment, being sure to label the axes.

 What would be the effect on that equilibrium if fear of war made businesses want to avoid risks? Explain and illustrate with another graph.

 Going back to the initial situation, what would be the effect on the equilibrium if income were to gradually rise?

Explain and illustrate with another graph.

The median on this exam was 58, the high was 85

Econ 201                             Exam #1b                    Fall, 2001                   Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using the flip sides if necessary. Questions are equally weighted. Be sure to label the axes on the graphs. If any question is unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Structural unemployment

b) Real wage

c) Human Development Index

d) Value Added

e) Personal Distribution of Income

2. On a parallel set of graphs, illustrate the determination of

equilibrium quantity of labor, and via the production function the level

of potential output of GDP. (Be sure to label the axes on each graph).

Then, explain and illustrate (using new graphs if necessary) the effects

on that equilibrium of two separate changes: 1) an increase in technology,

and 2) an increase in population.

3a. What is the main reason for focusing on GDP as an indicator of

national welfare. Identify and explain briefly two criticisms of using GDP as an indicator of welfare.

b.  What is meant by job rationing? How does this affect the natural rate

of unemployment? Explain and illustrate with a graph.

4a . Fill in the blanks in the table.

Year         1     2   3    4

Nominal GDP\_\_\_  4200 4800  5600

Real GDP   4000 4200 \_\_\_   4800

Deflator     95  100 110   \_\_\_

b. What is the rate of growth of real GDP between period 1 and period 2?

c.  What is the rate of inflation between period 1 and period 2?

D. If the US economy slips into a mild recession, what socio-economic

groups might we expect would be most seriously affected?

5a. The textbook points out that there are important differences in the

broad areas of spending engaged in by the Federal government and the State

and Local Governments. For each of those groups, identify three major

areas of spending.

b. Identify two factors that determine savings, and two different factors

that determine investment. Draw a graph of the determination of

equilibrium between savings and investment, being careful to label the

axes.

i- What would be the effect on that equilibrium if the government were to

lower personal taxes? Explain and illustrate your answer on the graph.

ii- Suppose that the world political situation were to improve,

leading to an increase in business optimism. Explain and illustrate on a

graph how that would affect the initial situation of equilibrium.

The median on this exam was 55; the high was 86.

Econ 201                             Exam #1                    Winter, 2001                   Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally weighted.

Be sure to label the axes on the graphs. If any question is unclear,

please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Okun's law

b) Spillover cost

c) Invisible hand

d) Ratchet effect

e) Consumption of fixed capital

2a. One type of unemployment is seasonal unemployment. Name the other

three, explaining them briefly. b. One criticism of the unemployment data

is false information. Identify and explain briefly two other criticisms.

3a. The textbook discusses some major differences among the three levels

of government (federal, state, local) in terms of the percentage breakdown

of expenditures and sources of revenue.  For each of these three levels,

identify two important areas of expenditures, and two of revenue:

               Federal                  State                    Local

Expenditures

Revenues

b.  What is the difference between progressive and regressive taxes?

  Identify one progressive tax, and one regressive tax.

4a. What is the major criteria for identifying who (what economic groups) gets hurt by inflation? Give two different   examples of people who we would expect would suffer when there is inflation.

 b. Fill in the blanks

Period             Nominal GDP     Real GDP          Price Level

 1                    719           2881         \_\_\_\_\_

 2                   6244             6244           100

 3                   7265           \_\_\_\_\_\_         107.8

 4                  \_\_\_\_\_             6928         110.2

c. What is the rate of inflation between periods 3 and 4?

5 i. Should the following be expected to affect aggregate supply or

aggregate demand, and in what direction? It would help if you drew a graph

and attached a short explanation. a. The newly elected President gets a

bill passed that will increase expenditures on the military b. With the

end of the Cold War, several countries in central and east Europe wish to

buy products from the U.S. c. New technologies, embodied in the term

"information technology" result in an increase in worker productivity

  ii. What is meant by discretionary, or countercyclical, fiscal policy?

State and identify very briefly two arguments against using discretionary fiscal policy.

The median on this exam was 70; the high was 100

Econ 201                                Exam #1                     Fall, 2000                   Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using the flip sides if necessary. Questions are equally weighted. Be sure to label the axes on the graphs. If any question is unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Discouraged worker

b) Regressive income tax

c) Value added

d) Menu costs

e) Real interest rate

2a. Economists often use real GDP (or real GDP per person) as an indicator

of national welfare. What is the primary justification for using real GDP

as an indicator of welfare? b. There are several criticisms of using real

GDP as an indicator of national welfare. Identify and explain briefly

three of them. c. Which socio-demographic groups tend to suffer the

biggest losses when unemployment rises?

3a.  Our textbook distinguishes between two types of inflation. Identify

each one, and illustrate each one with a graph, and identify two economic

factors which might cause each one.

b. Inflation is thought to cause economic harm in a manner quite different

from unemployment. According to the textbook's analysis, who gets hurt by

inflation? Illustrate your answer with two examples.

4a.  Fill in the blanks. (If you didn't bring a calculator, leave the

answer in the form of 6/3)

Period  Nominal    Real    Price

            GDP    GDP     Index

   1       5500   5800    \_\_\_\_\_\_

   2       6000   6000    100

   3       6440   \_\_\_\_\_   104

   4       \_\_\_\_\_  6300    110

   5       7680   \_\_\_\_\_   120

    6       8000   6600    \_\_\_\_\_

b) What is the rate of inflation between period  4 and period 5?

c) What is the rate of growth of real income between Period 1 and period 2?

5.  Would the following be expected to move aggregate supply or aggregate

demand? Explain each answer briefly; it would be helpful (but not

required) if you were to include a graph. a) The newly elected government

decides to spend more on health care. b) There is a large increase in

nominal wages c) Japan buys more rice from the U.S. d) There is a decline

in interest rates One of the standard policies of Keynesian economics is

called discretionary fiscal policy. What is meant by this? Give two

arguments against the use of this policy.

The median on this exam was 72; the high was 92.

Econ 201               Exam #1                      Winter, 2000                      Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these

sheets, using the flip sides if necessary. Questions are equally

weighted. Be sure to label the axes on the graphs. If any question is

unclear, please ask for a clarification.

1. Identify the following with a sentence or at most two:

a) Horizontal Combination

b) Exclusion Principle

c) Built-in Stabilizer

d) Invisible Hand

e) NAFTA

2a. Fill in the blanks in the Table:

         Nominal  Real

Year   GDP    GDP    PriceIndex

1990          7,800  95

1991   8,000  8,000     100

1992   8,910  8,100

1993   9                 115

1994          8,200      120

1994  10,000 8,400

b. Which year is the base year?

c. What is the rate of inflation between 1993 and 1994?

d. What is the rate of growth of real GDP between 1990 and 1991?

e. There are several limitations/criticisms of the use of GDP as an indicator of welfare. Identify

and briefly discuss two of them.

3a. What is the difference between progressive and regressive taxes? Give one example of each

type.

b. Besides seasonal unemployment, what are the three major categories of unemployment?

Describe each one real briefly.

c. In the U.S., which demographic groups tend to suffer more unemployment?

4. What tools do governments use to promote exports? Explain each briefly.

What tools do governments use to restrict imports? Explain each briefly.

Who benefits and who loses from protectionist policies? Explain your answer.

On an entirely different subject, explain what is meant by:

countercyclical fiscal policy? What is crowding out, and why is it an argument against

countercyclical fiscal policy?

5. In terms of the aggregate supply/aggregate demand analysis, how would the following be

expected to affect real GDP and the price level? Explain each answer, illustrating each one with

an AS/AD graph.

a. The price of imported oil increases

b. The government decides to spend an extra $100 billion on biological research

c. A collapse of the stock market suddenly makes people feel significantly poorer

d. There is an increase in  interest rates

e. There is a sizeable increase in the percentage of the U.S. labor force which is unionized.

The median on this exam was 64. The high was 92.

Econ 201                   Exam #1         Fall,  1999                 Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on these sheets, using the flip

sides if necessary. Questions are equally weighted. Be sure to label the axes on the graphs. If any

question is unclear, please ask for a clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) Uruguay Round

b) ratchet effect

c) Okun's Law

d) Exclusion principle

e) Built-in stabilizer

2.

a. Fill in the blanks in the Table.  (If you didn't bring a

calculator, leave your answer in the form 5/3)

b. What is the amount of inflation between periods 4

and 5?

c. What is the rate of growth of the economy between

periods 2 and 3?

b. What is meant by countercyclical fiscal policy? What is its goal? State and explain real briefly

two arguments against using it?

3a. Besides seasonal unemployment, name and explain briefly the three types of unemployment.

b. Suppose there were unantipicated inflation of 10 percent per year. How might that affect the

real income of the following individuals? Explain each answer briefly.

a. A department store clerk:

b. A heavily indebted farmer

c. The retire person on a fixed income

e. A union member with a multi-year contract and no COLA

4a. Identify and distinguish between GDP, NDP and personal income.

b. Any of the above is used as an indicator of a nation's well being. There are, however, several

well established criticisms or limitations of identifying them with the country's welfare. Mention

three, explaining each briefly.

c. What is meant by supply side policy? Mention and explain briefly two examples.

5. What is the difference between cost push and demand pull inflation? Draw a graph of each.  In

both cases,  identify two different factors that can cause this type of inflation.

b. The vertical part (or phase) of the aggregate supply curve was called the "classical phase."

What is there about that part of the curve that relates it to the classical writers such as Adam

Smith? Explain briefly.

The median on this exam was 65; high was 89

Econ 201  Exam #1a      Fall, 1998       Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on

these sheets, using the flip sides if

necessary. Questions are equally weighted. Be sure to label the

axes on the graphs. If any question is

unclear, please ask for a clarification.

1. Identify the following with a sentence or at most two:

a) Production Possibility Curve

b) non-tariff barrier

c) Fallacy of composition

d) Asian tigers (NICs)

e) Regressive tax

2a. In addition to seasonal unemployment, identify and explain

real briefly the three main categories or

types of unemployment.

b. What is meant by the natural rate of unemployment?  There is

evidence that it is not constant. What

are some of the explanations for changes in the natural rate?

c. State and explain real briefly two criticisms of how

unemployment is measured in the United States.

3. What is meant by discretionary fiscal policy?

- One of the major criticisms of discretionary fiscal policy is

referred to as crowding out. Explain what

is meant by this term, in terms both of what it is, and why it

argues against discretionary fiscal policy.

- One of the major innovations in macroeconomics during the last

couple of decades has been the

attention given to supply side economics. Identify two policies

which are recommended by people in

this school, and explain why they might have the effects which

their supporters promise.

4. Fill in the blanks

Identify and describe briefly two criticisms of the use of GDP as

an indicator of well-being.

5. How will the following affect U.S. prices, output and

employment?  Explain each answer,

illustrating each one with a graph.

a). Economic crisis in Asia reduces those countries' ability to

import.

b). The government lowers personal income taxes.

c). New laser technology improves profitability in many

manufacturing industries.

d). In order to balance the budget, the government decides to

stop funding astronomical research.

e). The stock market falls 25%

f). A new study convinces consumers that drinking coffee is bad

for our health.

The median on this exam was 70; high was 96.

Econ 201               Exam #1b                Fall, 1998     Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on

these sheets, using the flip sides if

necessary. Questions are equally weighted. Be sure to label the

axes on the graphs. If any question is

unclear, please ask for a clarification.

1. Identify the following with a sentence or at most two:

a) Invisible hand

b) Most favored nation

c) Ratchet effect

d) Positive economics

e) comparative advantage

2a. What socio-economic groups tend to be hit when cyclical

unemployment rises?

b. What is meant by the term "discouraged worker?"

c. Suppose there is an unanticipated inflation of 10 percent/yr.

How might that affect each of the

following individuals? Explain very briefly.

-i  A department store clerk

-ii  A heavily indebted farmer

-iii  a retired railway worker

-iv  The owner of an independent small town department store

3. Fill in the blanks

Identify and describe briefly two criticisms of the use of GDP as

an indicator of well-being.

4. What is meant by the term economic spillover?

Identify a concrete example of a spillover, and explain,

illustrating your answer with a graph, how government intervention might lead to a better

situation than that provided by the free market.

Assume that in a particular year the natural rate of unemployment is 5 percent and the actual rate

of unemployment is 9 percent. Use Okun's law to determine the size of the GDP gap, in

percentage terms. If GDP is $5000 billion that year, how much output is being foregone because

of cyclical unemployment?

5. How might the following be expected to affect prices, output and employment? Explain your

answers, illustrating each one with a graph.

a. A new law is passed in Congress, reducing the amount of social security payments people will

receive.

b. New government rules make it easier to fire workers who are judged by their bosses to be

unproductive.

c. The sickness of a major foreign leader causes that country to slip into a recession, reducing its

imports.

d. Discovery of a new way to produce lightweight, strong metals improves profitability in the

automobile industry.

e. The government decides to spend more money beautifying the national parks

f. Fear of "hoof and mouth disease" leads U.S. consumers to reduce their purchases of imported

beef from Europe.

The median on this exam was 71; high was 93

Econ 201               Exam #1             Winter, 1998             Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on

these sheets, using the flip sides if necessary. Questions are

equally weighted. Be sure to label the axes on the graphs. If any

question is unclear, please ask for a clarification.

1. Identify the following with a sentence or at most two:

a) Built-in stabilizer

b) Uruguay Round

c) Spillover Benefit

d) Say's Law

e) Discouraged worker

2a. In addition to seasonal unemployment, state and explain

briefly the three types or categories of unemployment? What

could/ought the government do to reduce each one, if anything?

b. Unemployment does not affect all sections of society the same.

Which groups are more prone to unemployment, and which less?

3a. Perform the following calculations.

3b. Consider an economy where the the marginal propensity to

consume is 0.8, and prices are constant. If

investment increases by $ 300, by how much does income change?

Illustrate the shift from an old to a new

equilibrium on a graph.

4a.  Explain and illustrate with a pair of graphs the differences

between a demand side, and a supply side view

of the macroeconomic impact of a tax cut.

3b. State and explain briefly three criticisms of the use of

discretionary fiscal policy.

5a. Explain the distinction between cost push and demand pull

inflation, and illustrate each with a graph.

What would be two economic causes of cost push, and two of demand

pull inflation?

c. The ratchet effect is typically explained as being caused by

downward price inflexibility. What would be two

reasons which could explain that downward price inflexibility?

The median on this exam was 71; the high was 91

Econ 201       Exam #1 12:40 class      Fall, 1997         Professor Twomey

Please PRINT your name on the BACK of the last sheet. Answer on

these sheets, using the flip sides if necessary. Questions are equally weighted. If any question is

unclear, please ask for a clarification. Time: 1 hour.

1. Identify the following with a sentence or at most two:

a) Public good

b) Okun's law

c) Value Added

d) Discouraged worker

e) Smoot Hawley

2. Consider the following relationship between consumption (C)

and income (Y), each in billion dollars.

         C        Y                 A) What is the value of the MPC?

         350      600

         380      650

         410      700               b) What is the value of the multiplier?

         440      750

         470      800

         500      850               c) If investment changes by 200, by how much does

         530      900                        equilibrium income change?

d) If investment equals $230, what is the value of equilibrium

income?

3. Explain, illustrating your answer with a pair of graphs, the difference between cost push and

demand pull inflation. State one cause of each one. Why is (real) GDP so often referred to as an

indicator of a country's well-being? Explain briefly three criticisms of such an interpretation.

4. How might each of the following be expected to affect, if at all, the graphs of savings,

investment, or consumption? Explain each answer briefly. It is probably best to

include a graph for the curves that are shifted.

a) The stock market undergoes a continual increase in value

significantly higher than inflation or income growth

b) As part of a long term program to balance the budget, the

government announces a plan to reduce

significantly the social security payments to retirees.

c) real interest rates fall

d) The introduction of computers into manufacturing lowers costs

of production

e) People start to believe that reduced inflation will no longer

erode the value of the "nest-eggs" they have put

aside for retirement.

5a) In a decentralized society such as ours, the state and the

local governments are important in spending and

taxing, along with the federal government.

For each governmental level, indicate one TAX, and one

EXPENDITURE, which is important for that level,

and not so for the other two. (No big explanations needed).

                                    Federal

State                      Local

TAX

Expenditure

b) Contrast--with a pair of graphs--the analysis, of supply

siders and of Keynesians, of the effects of a tax cut.

median on this exam was 70. High was 96

Econ 201          Exam #1 1:40 class          Fall, 1997

Professor Twomey

Please PRINT your name on the back of the last sheet. Answer on

these sheets, using the flip sides if necessary.

Questions are equally weighted. If any question is unclear,

please ask for a clarification. Time: 1 hour.

1. Identify the following with a sentence or at most two:

a) Double counting

b) Asian Tigers

c) Say's Law

d) COLA

e) Spillover

2a. In addition to seasonal unemployment, what are the three main

types, or categories, of unemployment?

Explain each briefly.

b. State and explain briefly three criticisms of the method by

which unemployment is measured in the U.S.

c. Our textbook has a graph which depicts business cycles in the

U.S. since the middle of the last century. What

are two differences between the cycles that the U.S. experienced,

for example, before the 1930's Depression,

and those we've had since 1950?

3. Will the following affect aggregate supply or aggregate demand

(or neither). Explain briefly, illustrating your

answer with a graph.

a) There is a complete disintegration of OPEC, causing oil prices

to fall by one-half

b) A revived eastern Europe grows rapidly, importing significant

quantities of machines.

c) There is a decline in the percentage of the U.S. labor force

which is unionized.

d) The government decides to embark on a program to send manned

space ships to Mars

e) Better educational programs increases labor productivity

4a. Suppose the marginal propensity to save is 0.2, and that

investment increases by $75 billion. According to

the multiplier analysis, what would be the change in equilibrium

income?

Illustrate this change, on either C + I graph, or the S and I

graph.

b) Draw a graph, illustrating the three parts, or phases of the

aggregate supply curve.

- On which part of the AS curve would the above increase in

income have a bigger impact on output?

5. Fill in the blanks

nominal

GDP Price index Real GDP Inflation Growth of

real income 1984 .. What is the base year?

What is the difference between the concepts of consumer durables

and non-durables?

         Which of these is generally expected to be more unstable

over the business cycle? Why?

the median on this exam was 67; high was 94

Economics 201     Exam #1    Winter, 1997    Professor Twomey

Please PRINT your name on the BACK of the last sheet. Write on

these sheets, using the backs if you need

space. Questions are equally weighted. Please ask for

clarification if you do not understand the question.  Good

luck!

1. Identify the following with a sentence or at most two:

a) Ratchet Effect

b) Natural Rate of Unemployment

c) Non-tariff barriers

d) Comparative Advantage

e) COLA

2a. In addition to "seasonal" unemployment, economists classify

three other types or categories of

unemployment. What are they, and describe each one briefly.

b. Economists often treat an increase in real GDP as a good

thing, and a decline in it as a bad thing. What is

the major reason for asserting that GDP is a good indicator of

national well-being?

c. Give two or three reasons why GDP is an imperfect indicator of

the well-being of the country.

3. Economists distinguish between "cost push" and "demand pull"

inflation. Draw a graph of each one.

-Which of the following will cause "cost push", and which "demand

pull" inflation? Explain each answer

briefly; no need to draw more graphs.

a) Government increases expenditures on defense

b) Monetary policy causes interest rates to go down

c) Seeking to balance the budget, the president raises business

profit taxes.

d) As a result of an election, the new president raises tariffs

on imported products from Asia.

e) Madonna and Howard Stern get together with Nintendo and create

a computer gadget which is so much fun

         that it drastically reduces productivity of office

workers.

4. Consider an economy characterized by the following consumption

function, which can be written as  Cons =

1800 + 0.4 x Income

      Income      Cons.

4000 3400a) What is the MPC?\_\_\_\_\_\_     What is the

multiplier?\_\_\_\_\_\_

4500 3600

5000 3800

5500 4000  b) If Investment is 900, what is the equilibrium value

of income?

 c) If investment increases by 300, by how much does equilibrium

income change?

Draw a graph of the determination of equilibrium income, using

either the C+I or S&I graphs.

-On the graph, illustrate how the increase of investment changes

the equilibrium level of income.

What happens to equilibrium income if, because of a massive

societal rejection of consumer values, people

decide to save a higher percentage of their income? Illustrate on

the graph.

5a. Fill in the blanks.

        YEAR    Nominal    Real              Price

                    GDP     GDP              Index

           1       1200    \_\_\_\_              92

           2       1400    1400              100

           3       1500    \_\_\_\_              105

           4       \_\_\_\_    1500              110

           5       1800    1600              \_\_\_\_

b. What is the rate of growth of real GDP between period 4 and

period 5?

c. What is the rate of inflation between period 1 and period 2?

d. What is meant by discretionary fiscal policy?

     Under what circumstance(s) would it be a good idea to

implement discretionary fiscal policy?

     Give two counterarguments or two reasons against using

discretionary fiscal policy.

The median on this exam was 75. High was 100

Econ 201              Exam #1             Fall, 1996   Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET.  Answer on

these sheets,

using the backs if necessary. Questions are equally weighted.

Please ask for

clarification of any ambiguous question.

Identify the following with a sentence or at most two:

a) real interest rate

b) GATT

c) COLA

d) Say's Law

e) value added

2. Explain, using a pair of graphs, the difference between cost

push and

demand pull inflation. For each type, give two examples of

potential causes -

no long explanation needed.  3a. In addition to seasonal

unemployment, what

are the other three types of unemployment?

- b. Which socio-demographic groups tend to suffer most when

unemployment

rises?

- c. In real simple terms, why is it thought that GDP is a good

measure of a

country's welfare?

- d. What are three limitations on the usefulness of GDP as an

indicator of a

country's welfare?

4. Fill in the blanks:

      Year   Nominal GDP            Price Index       Real GDP

      1960   513.4                  \_\_\_\_\_\_\_\_\_         1974.6

      1970   \_\_\_\_\_\_\_\_\_\_             35.1              2879.5

      1986   4268.6                 \_\_\_\_\_\_\_           4405.2

      1987   4539.9                 100               4539.9

      1988   4900.4                 103.9             \_\_\_\_\_\_

      1989   \_\_\_\_\_                  108.5             4839.4

What was the rate of inflation between 1988 and 1989? \_\_\_\_\_\_\_\_\_\_\_

What was the rate of growth of real GDP between 1986 and 1987?

\_\_\_\_\_\_\_

What is the base year for the Real GDP data? \_\_\_\_\_\_\_\_

5. Which curveþaggregate supply or aggregate demandþwould the

following

affect, and in which direction (right or left, not up or down)?

Support your

answer with a very short explanation.

a. The government decides to lower Social Security payments

b. Improved technology in our computer companies leads foreigners

to try to

purchase more of products from the U.S.

c. The price of oil jumps due to new environmental regulations

Now, suppose the new president lowers taxes. Explain, and show on

a pair of

graphs, how this would be expected to affect prices and output,

according to a

supply side economist, and according to a follower of the

Keynesian theory.

median was 80; high was 98Econ 201  Exam #1     9:30 class   Winter, 1996     Professor

Twomey

Please print your name on the BACK of the LAST sheet. Answer on

the backs of

these sheets if you need space. Questions are equally weighted.

If you do not

understand a question, please ask for clarification. Good luck.

1. Identify the following with a sentence or at most two:

      a) Most favored nation

      b) COLA

      c) Say's Law

      d) Ratchet effect

      e) Functional distribution of income

2. Name and explain briefly the three categories of unemployment.

Identify and explain briefly two criticisms of the measurement of

unemployment.

What is meant by the term "full employment rate of unemployment?"

3. Consider the following consumption function, where Y is real

income, C is

consumption, I is investment, and we ignore government and

foreign trade:

      Y      150    200    250        300   350   400   450    500

      C      100    130    160        190   220   250   280    310

  a) What is the MPC?

  b) What is the value of the multiplier?

  c) if I = 90, what is the equilibrium level of income?

  Draw a Graph illustrating this equilibrium, being sure to label each axis.

  d) If I increases by 40, by how much does equilibrium income increase?

4. Explain what is meant by cost push inflation, and by demand pull inflation.

Mention two causes for each one. Illustrate each type of inflation with a graph.

5. The textbook mentions two major economic disturbances in this century for the U.S.; the Great

Depression of the 1930s, and the inflation which accompanied the Viet Nam War and 1960s

social programs.

      For one of these events, explain and illustrate how it occurred, according to the aggregate

supply/aggregate demand analysis

      For the example which you chose, what sort of government policy would  (should?) have

been recommended by an economist who believed in countercyclical fiscal policy? Explain,

illustrating your answer again on another graph.

      What practical or political considerations might have made it difficult  to apply such a

policy? Explain.

median was 81; high was 98.

Econ 201  Winter, 1994   12:30 class  Exam #1    Professor Twomey

Please PRINT, on the BACK of the LAST sheet, your name and the

hour of this class in which you are officially enrolled. Answer on these sheets, using the backs if

necessary.  Questions are equally weighted.  Ask for clarification if the wording is unclear.  Good

luck.

1. Identify the following with a sentence or at most two:

a) Double counting

b) Ricardian equivalence theorem

c) Balanced budget multiplier

d) Stagflation

e) Automatic stabilizer

2a. What are the three types (or categories) of unemployment, and

how might they be reduced?

2b. Which socio-economic groups are more likely to get hurt by an

increase in unemployment?

3a. Explain and illustrate with a graph the concept of cost-push

inflation.  What are two factors which could cause cost-push inflation?

3b. List and explain briefly three factors which affect

investment demand. Why is it that investment tends to be so unstable?

4a. What is discretionary fiscal policy?

4b. One group of criticisms of discretionary fiscal policy argues

the existence of problems of timing and applying it.  Explain this

position briefly.

4c. Another criticism of discretionary fiscal policy uses the key

phrase crowding out.  What is crowding out, and why might it occur?

4d. Another broad group of critics of discretionary fiscal policy

is known as supply-siders.  Illustrate this general position with an AS-AD

graph, and discuss briefly two different arguments which they have proposed

(make sure they are supply side).

5a. Suppose the following relationship (with C standing for

consumption, Y is income, I is investment; the formula would be

C = 100 + 0.8xY ) (If you do not have a calculator, leave your

answer in the form 8/2):

      Y                             C

      600                           580

      700                           660

      800                           740

      900                           820

What is the value of the MPC? What is the value of the multiplier?

If I = 40, what is the equilibrium value of income?

If I increases by  20, what will be the new equilibrium

value of

income?

5b. Consider the following values:

Period       Nominal                                  Real

Price

              Income                                  Income

     Index

1.                                                    120

98

2.           130

130

      100

3.           131

125

4.           150

      107

5.                                                    145

111

i. Fill in the blanks

ii. Which is the base year (or base period?)

iii. How much is inflation between periods 4 and 5?

iv. What is the rate of growth of real income between periods 1

    and 2?

MEDIAN WAS 59; high was 93Econ 201    Exam #1    12:30 class    Winter, 1996  Professor

Twomey

Please print your name on the back of the last sheet. Answer on

the backs of these sheets if you need space. Questions are equally weighted.

If you do not understand a question, please ask for clarification. Good luck.

1. Identify the following with a sentence or at most two:

  a) Okun's Law

  b) Non-tariff barriers

  c) John Maynard Keynes

  d) cost push inflation

  e) value added

2. One important factor determining the level

of investment is the rate of interest. Draw

a graph of the relationship between

interest rates and investment.

  Name two other factors which also affect the level of

investment, explaining

real briefly.

  GDP is often used as an indicator of national welfare. Why?

  State and explain briefly two criticisms of the use of GDP as

an indicator

of welfare.

3. State and explain briefly what effect each of the following

will have on

equilibrium price, output, and employment (other things being

equal),

illustrating each answer with the appropriate graph of aggregate

supply and

aggregate demand.

  a) There is an increase in exports when the economy is on the

vertical range

of aggregate supply.

  b) Technological change allows more to be produced at lower

prices.

  c) The economy is on the flat part of the aggregate supply

curve, and

investments fall.

  d) The economy is on the intermediate range of the aggregate

supply curve,

and the price of oil increases

    dramatically.

4a. Suppose the MPS has the value 0.2   What is the value of the

multiplier?

If investment increases by $15 billion, by how much does

equilibrium income

change, according to the simple model presented in the textbook

and class.

Fill in the blanks:

YearNominal   Real  Price       What is the rate of inflation

between periods

3 and 4?

        GDP    GDP

1       500    510   \_\_\_\_

2       550    550    100

3       600   \_\_\_\_    108       What is the rate of growth of

real income

between periods

4      \_\_\_\_    580    115         1 and 2?

5       800    600   \_\_\_\_

5. Draw a graph of the determination of the equilibrium exchange

rate between

the US dollar ($) and the German mark (M), being careful to label

each axis.

Suppose there is inflation in Germany. How will that affect the

equilibrium

exchange rate? Will there be a depreciation or an appreciation of

the mark?

Explain, illustrating your answer with a graph.

Will the change in the exchange rate you have described above,

make a summer

trip to Germany cheaper or more expensive for a resident of the

U.S.? Explain

briefly.

median was 55; high was 95

Econ 201            Exam #1                              Spring,

1996

               Professor Twomey

Please PRINT your name on the BACK of the LAST SHEET. Answer on

these sheets,

using the backsides if you need the space. If the question is

unclear, please

ask for clarification. Questions are equally weighted. Time:

about 1 hour.

Good luck!

1. Identify the following with a sentence or at most two:

    a) Regressive tax

    b) political business cycle

    c) COLA

    d) Ratchet Effect

    e) difference between gross and net investment

2a. In addition to seasonal unemployment, what are the three main

categories

of unemployment? Explain briefly.

What is meant by the natural rate of unemployment? Relate it to

these

categories.

Identify two criticisms of the current method of measuring the

unemployment

rate.

3. Fill in the blanks:   Year             1     2 3   4

5     6

                  Nominal GDP       300   \_\_\_  320    358   416

\_\_\_

                  Real GDP          \_\_\_   300  320    325   \_\_\_

340

                  Price Index       90    95  100 \_\_\_       130

200

What is the base year? \_\_\_\_\_\_    What is the growth rate of real

GDP between

year 3 and 4?\_\_\_

Real briefly, recall that in class and in the text it was noted

that there are

important differences in terms of the kinds of taxes that are

levied by the

Federal government, versus, say, the local governments, and the

types of

expenditures made at those two levels. Give one example of a tax

and an

expenditure which is important for the Federal Government, and

one each which

are important for the local governments.

4. What is meant by the term discretionary fiscal policy? Explain

briefly.

Consider the situation of 1979, when inflation in the U.S.  was

high (11%),

and unemployment low (5.6%). What sorts of policies on spending

and taxes

would a believer of discretionary fiscal policy advocate?  Show

how this would

affect the economy, in terms of the aggregate supply and demand

graph.

Now, consider a situation like that of 1992, when inflation was

low (3%) and

unemployment was high (9%). What sorts of policies on spending

and taxes would

a believer of discretionary fiscal policy advocate? Show how this

would affect

the economy, in terms of aggregate supply and demand.

5. Suppose the marginal propensity to consume were 0.8, and that

investment

were to increase by $150 billion.  By how much would income

change? Illustrate

this change on a graph (either C+I, S & I, or AD-AS).

The textbook described two major categories of inflation,

distinguished by

their causes: cost push and demand pull.  For each kind, draw a

graph

illustrating this type of inflation, and mention one or two

factors which

would cause it.Econ 201  Winter, 1994   1:30 class  Exam #1    Professor Twomey

Please PRINT, on the BACK of the LAST sheet, your name and the

hour of this

class in which you are officially enrolled.

Answer on these sheets, using the backs if necessary.  Questions

are equally

weighted.  Ask for clarification if the wording is unclear.  Good

luck.

1. Identify the following with a sentence or at most two:

a) Full employment budget

b) Say's Law

c) Discouraged workers

d) ratchet effect

e) Indirect business taxes

2a. What socio-economic groups are hurt when inflation suddenly

rises?

2b. State and explain briefly three criticisms of the use of GDP

as an

indicator of welfare.

3a. State and explain, illustrating with a graph, the paradox of

thrift.

Indicate what assumptions are being made.

3b. One broad group of critics of discretionary fiscal policy is

known as

supply siders.  Illustrate their position with an AS-AD graph,

and discuss

briefly two different arguments which they have proposed (make

sure they are

supply side).

4. Explain and illustrate with a graph the phenomenon of demand

pull

inflation.

State three factors which can cause demand pull inflation.

When demand pull inflation occurs, does that help workers or hurt

them?

Explain your answer.

5a. Consider an economy where the consumption function is

    C = 300 + 0.8 Income.

i). What is the value of the multiplier?

ii) If investment increases by 100, by how much does real GDP

increase?

5b. Consider an economy for which in two periods the values of

nominal GDP and

the Price Index were:

Period  Nominal Prices

       GDP

  1   2400      105

  2   2700      112

i) What is the value of real GDP in the two periods?

ii) What is the rate of growth of real GDP between period 1 and

period 2?

iii) What is the rate of inflation between period 1 and period 2?

 THE MEDIAN ON THIS EXAM WAS 64. High was 89.Economics 201    Exam #1   Fall, 1993

     Professor Twomey

Please PRINT your name on the BACK of the LAST sheet.

If you run out of space, use the backsides of these sheets.  Ask

for

clarification of any ambiguous question.  Questions are equally

weighted.

Label all the axes on the graphs. Good luck!

1. Identify the following with a sentence or at most two:

a) frictional unemployment

b) Employment Act of 1946

c) GDP deflator

d) Say's Law

e) Public Good

2. How would the following affect equilibrium real GDP and the

price level?

Explain each answer, illustrating it with a graph.

a. Flooding in the midwest hurts production

b. There is a decrease in government spending

c. There is an increase in the price of oil

d. A wave of patriotism convinces Americans that they prefer cars

made in the

USA, over imported cars.

3a. Explain and illustrate with a graph the paradox of thrift.

3b. Why is there a difference in the results associated with the

paradox of

thrift, and that of the investment multiplier. Explain briefly.

3c. What is an activist fiscal policy?  State and explain briefly

two

criticisms of activist fiscal policy.

4. In the book and in class we discussed two different kinds of

inflation,

distinguished by their causes.  What are they? Illustrate each

with a graph.

Which economic or social groups get hurt by inflation, and who

gets hurt when

unemployment rises?

5. Assuming the level of investment is $16 billion and

independent of the

level of total output, complete the following table and determine

the

equilibrium level of output and income which the private sector

of this closed

economy would provide (that is, ignore government and foreign

trade).

Possible

levels of       Real GDP     Consumption    Savings

employment  ($billion)  ($billion)  ($billion)

(millions)

    40          240      244     \_\_\_\_\_\_\_\_\_\_\_\_

    45          260      260     \_\_\_\_\_\_\_\_\_\_\_\_

    50          280      276     \_\_\_\_\_\_\_\_\_\_\_\_

    55          300      292     \_\_\_\_\_\_\_\_\_\_\_\_

    60          320      308     \_\_\_\_\_\_\_\_\_\_\_\_

    65          340      324     \_\_\_\_\_\_\_\_\_\_\_\_

    70          360      340     \_\_\_\_\_\_\_\_\_\_\_\_

    75          380      356     \_\_\_\_\_\_\_\_\_\_\_\_

    80          400      371     \_\_\_\_\_\_\_\_\_\_\_\_

a) If this economy has a labor force of 70 million, will there

exist an

inflationary gap or a recessionary gap?  what are the

consequences of this

gap?

b) What are the sizes of the MPC and the MPS?

c) Use the multiplier concept to explain the increase in the

equilibrium GDP

which will occur as the result of an increase in planned

investment spending

from $16 billion to $20 billion.

The median on this exam was 62Econ 201   Winter, 1993    Exam No. 1    Professor Twomey

Please PRINT your name on the BACK of the LAST sheet.  If you

don't understand

a question, ask for clarification. Write on the back of these

sheets, if

necessary. Questions are equally weighted.

1. Identify the following with a sentence or at most two:

  a) Okun's Law

  b) Employment Act of 1946

  c) Say's Law

  d) Real interest rate

  e) Indirect business tax

2. Name and explain briefly the three categories of unemployment.

Which of

the three kinds of unemployment has increased significantly since

1950? What

are two explanations for that increase?

Discuss two criticisms of the way that unemployment is measured.

3a. Explain the difference between cost push and demand pull

inflation,

illustrating each one with a graph.

b. President Clinton will announce some economic policies

tonight.  How might

each of the following affect aggregate demand or supply?

Illustrate with a

small graph.

 - higher tariffs (taxes) on imported automobiles

 - new expenditures on highway construction

 - lower government payments for medical care for retired people

4. One important issue in economics is how inflation affects

different groups

of the population.

How might unanticipated inflation affect these people, and why:

a. a pensioned railroad worker

b. an employee of a fast food restaurant, such as McDonald's

c. A heavily indebted farmer

d. an employee of a highly unionized manufacturing company

5. Consider a simple economy (i.e., no government, prices fixed)

characterized

by the following consumption function:

Consumption 1200  1600  2000 2400   2800

Income  1000    1500    2000 2500   3000

If investment equals 200, how much is equilibrium income?

Illustrate on a graph (not necessarily to scale) the

determination of income

If investment falls by 100, by how much will equilibrium fall?

The median on this exam was 59; high was 98.Econ 201  Spring, 1994  Exam #1     Professor

Twomey

Please PRINT your name on the BACK of the LAST SHEET.

Answer on these sheets.  Ask for clarification of any unclear

question.  Time:

1 hour. Good luck.

1. Identify the following with a sentence or at most two (20

points):

a) Okun's Law

b) Ratchet Effect

c) Discouraged Workers

d) Wealth Effect on Consumption

e) Discretionary Fiscal Policy

2.(10 points) What is meant by the natural rate of unemployment?

State and explain briefly two reasons why the natural rate of

unemployment may

have risen since the early 1950s.

3. (10 points) Are production and the business cycle more

unstable for sectors

producing durable goods or nondurable goods? Explain

4. (10 points) Give two or three structural or institutional

factors in a

society tend to cause its aggregate supply curve to be more

vertical? Discuss

very briefly.

5. (10 points). What is the difference between a progressive and

a regressive

tax?

Are the following taxes/fees progressive or regressive? Explain

very briefly.

  Income tax

  Property tax

  Sales tax

  Driver's license fee

6. (10 points) With regard to analysis of the "income-expenditure

stream"

economists talk about leakages and injections. What are these two

concepts?

Give two examples of each one.

7. (20 points). Suppose President Clinton and Congress decided to

step up this

country's military activity, and so spent more money on Defense.

Using the

AS-AD framework, illustrate and explain briefly how this would

affect prices,

output, employment and the deficit.

If the (fiscal) multiplier has a value of three, and they were to

increase

Defense expenditures by two billion dollars, what would the

simple Keynesian

model predict as the increase in income?

8. (10 points) Economists distinguish two basic types of

inflation, which have

different causes.  In one of them, when prices go up output goes

up?  What is

this called?  Give two examples of its causes.

In the other inflation scenario, when prices go up output

declines.  What is

this called?  Give two examples of its causes.

Econ 201   Exam #1  10:30 Class  Fall, 1992   Professor Twomey

Please PRINT your name on the BACK of the last sheet.  Questions

are equally

weighted.  Ask for clarification of any unclear question.  Good

luck.

1 Identify the following with a sentence or at most two:

 a) medium of exchange

 b) functional distribution of income

 c) double taxation

 d) full employment budget

 e) COLA

2. Using both a verbal explanation and a pair of graphs,

distinguish between

cost push and demand pull inflation, and state two different

causes of each

one.

3. What is the most important source of revenue and the major

type of

expenditure at the federal level?

at the state level?

at the local level?

4. The textbook contrasts two views of how taxes affect prices

and output --

let's call them the traditional demand side view, and the supply

side view.

Suppose the new President raises taxes.  State briefly what each

analysis

would predict to be the outcome in terms of prices and output,

illustrating

each view with the corresponding graph.

5. Suppose the following tabular description of a consumption

function, where

Y is real GDP, and C is consumption

    Y   200 250 300  350 400

    C   180 220 260  300 340

A) What is the value of the MPC?

  What is the value of the MPS?

B). What is the value of the multiplier?

C) if investment equals 30, what is the equilibrium value of

income?

D) If investment rises to 40, what is the new value of

equilibrium income?

Econ 201   Exam #1  12:30 Class  Fall, 1992   Professor Twomey

Please PRINT your name on the BACK of the last sheet.  Questions

are equally

weighted.  Please ask for clarification if you don't understand a

question.

1 Identify the following with a sentence or at most two:

 a) Functional distribution of income

 b) value added

 c) hyperinflation

 d) built-in stabilizer

 e) natural rate of unemployment

2a. State the paradox of thrift, indicating clearly the

assumptions necessary

for it to be correct.  Illustrate it with a graph.

b. Explain briefly and illustrate with a graph, how each of the

following will

affect the consumption or savings schedules, or the investment

schedule.

 i) the development of an improved -- cheaper method of

manufacturing iron

ii) the threat of a limited, non-nuclear war leading people to

believe that

there will be a future shortage of consumer durables

iii)

3a. State and explain very briefly three different reasons why

GDP does not

accurately measure social welfare.

b). What are the three types or categories of unemployment?

c). Give two criticisms of the use of unemployment data as

currently defined

and measured.

4a. Suppose an initial situation in which there is no

governmental

intervention in the economy, and so the labor market is in

equilibrium. Then

suppose a Liberal president gets elected, who imposes a minimum

wage law.

Using both a verbal description and one or two graphs, compare

and contrast

these two situations in terms of wages and employment.

b. What is crowding out? Why is it important?

5. Consider the consumption function C = 20 + 0.75 Y, where C is

consumption

and Y is GDP, for which some points are listed below.

    Y     C

  400   \_\_\_\_\_

   \_\_\_\_   350        A) Fill in the missing blanks.

   480    380

   520   \_\_\_\_       B) If investment equals 110, what is

                 equilibrium GDP?   \_\_\_\_\_\_\_\_\_\_\_

   560   \_\_\_\_

   \_\_\_\_  500        C) If Investment increases by 10, by how

                much does GDP increase?

            D) What is the value of the multiplier?

Illustrate with a graph the determination of equilibrium GDP,

such as in part

B.

Econ 201 Exam #1 makeup Fall, 1992  Professor Twomey     NAME

Questions are equally weighted.   Good luck.

1 Identify the following with a sentence or at most two:

 a) hyperinflation

 b) Personal distribution of income

 c) Okun's Law

 d) balanced budget multiplier

 e) COLA

2a. Using both a verbal explanation and a pair of graphs,

distinguish between

cost push and demand pull inflation, and state two different

causes of each

one.

2b. State the paradox of thrift, indicating clearly the

assumptions necessary

for it to be correct.  Illustrate it with a graph.

3a. State and explain very briefly three different reasons why

GDP does not

accurately measure social welfare.

b). What are the three types or categories of unemployment?

c). Give two criticisms of the use of unemployment data as

currently defined

and measured.

4. The textbook contrasts two views of how taxes affect prices

and output --

let's call them the traditional demand side view, and the supply

side view.

Suppose the new President raises taxes.  State briefly what each

analysis

would predict to be the outcome in terms of prices and output,

illustrating

each view with the corresponding graph.

5. Suppose the following tabular description of a consumption

function, where

Y is real GDP, and C is consumption

    Y   200 300 400  500 700

    C   180 260 340  420 580

A) What is the value of the MPC?

 What is the value of the MPS?

B). What is the value of the multiplier?

C) if investment equals 80, what is the equilibrium value of

income?

D) If investment rises to 120, what is the new value of

equilibrium income?

    Econ 201    9:30 Class       Winter, 1995         Exam #1

     Prof.

Twomey

Please PRINT your name on the back of the last sheet.  Answer on

the backsides

of these sheets if you need space. If any question is unclear,

please ask for

clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) built-in stabilizer

b) Okun's Law

c) discouraged worker

d) double counting

e) real interest rate

2. Consider a simple model of an economy with no government nor

foreign trade,

constant prices, and where the relation between consumption (C)

and real GDP

(Y) is as follows:

      C 160 200 240  280 320 360

      Y 200 250 300  350 400 450

a) What is the value of the MPC?

b) What is the value of the multiplier?

c) If investment equals 80, what is

equilibrium real GDP?

Illustrate with a graph the

determination of equilibrium GDP, being

careful to label the axis.

d) If Investment falls by 20, to a level of 60, by how much does

real GDP

change?

3a. Explain the difference between cost push and demand pull

inflation, and

illustrate each one with a graph.

b) State two examples of causes of cost push, and two examples of

causes of

demand pull inflation.

4. Give two of the most important examples for each category:

      Federal Gov't      State Gov't          Local Gov't

Expenditures

Revenues

5. The standard (Keynesian) argument in favor of expansionary

fiscal policy is

that it will lower unemployment.  There follow four potential

arguments

against expansionary fiscal policy. At least from a theoretical

viewpoint, are

these valid critiques? Explain each answer briefly.

a) We already have full employment today.

b) Deficits always lead to crowding out.

c) The government cannot keep financing its deficits.

d) Deficits lead to inflation.

A separate kind of critique of discretionary fiscal policy has to

do with

issues of timing. Explain this issue, and illustrate with a

couple of

examples.

The high on this exam was 96; the median was 74Econ 201        12:30 Class        Winter, 1995

  Exam #1

  Prof.

Twomey

Please PRINT your name on the back of the last sheet.  Answer on

the backsides

of these sheets if you need space. If any question is unclear,

please ask for

clarification.  Good luck!

1. Identify the following with a sentence or at most two:

a) discretionary fiscal policy

b) COLA

c) full employment budget

d) crowding out

e) natural unemployment rate

2. Explain briefly how each of the following individuals would be

affected by

unanticipated inflation of 10 percent per year:

a) a retired railroad worker

b) a department store clerk

c) a UAW assembly-line worker

d) a heavily indebted farmer

e) the owner of the sole gas station in a small town

3a. State and explain briefly what is meant by the paradox of

thrift,

illustrating it with a graph (being careful to label all the axis

and the

lines)

b. State and explain briefly what are the three kinds (types,

classifications,

categories) of unemployment.

4. Consider a simple model of an economy in which there is no

government nor

foreign trade, and prices are constant. Indicating consumption by

C, and real

GDP by Y, the consumption function is:

    C    750 1500    2250    3000   3750  4500

    Y   1000    2000    3000 4000   5000  6000

What is the value of the MPC? What is the value of the

multiplier?

If investment equals 500, what is the value of equilibrium GDP?

Illustrate the equilibrium on a graph.

If investment rises to 1000, by how much does real GDP change?

5. President Clinton just submitted a budget to Congress, which

basically does

not involve big reductions in spending or taxes, so that the

deficit will not

change by much. Many people think he ought to reduce either or

both taxes or

spending. Using whichever theory you prefer, but identifying that

theory,

please answer how will each of these affect aggregate demand,

aggregate

supply, output and employment, and the deficit?

      Lower gov't expenditures         lower taxes

Affect

  AS

  AD

  output/  employment

  deficit

Finally, what is meant by the political business cycle, is it

good or bad for

the economy, and does it seem to be occurring now?

The high on this exam was 97, the median was 75Economics 201       Exam #1         Fall, 1994

Professor Twomey

Please PRINT your name on the BACK of the last sheet.  Answer on

these sheets,

using the backs if necessary. If any question is unclear, please

ask for

clarification. Questions are equally weighted. Good Luck.

1. Identify the following with a sentence or at most two:

a) Okun's Law

b) COLA

c) Recessionary Gap

d) Circular Flow

e) Say's Law

2a. State and explain very briefly three criticisms of the use of

GDP as an

indicator of social welfare.

2b. What is meant by crowding out, and why is it important?

Explain briefly

the mechanism by which this works.

3a. For a simple world without government nor foreign trade, and

with prices

constant, our textbook discusses two analyses of factors which

can affect

output; the investment multiplier, and the paradox of thrift.

State what each

is about, and illustrate each one with a separate graph.

3b. Assume that the consumption function for a simple economy

(such as

discussed above in 3a) is characterized by the equation:

    C = 500 + 0.8 Y     where C is consumption, and Y is real

income.

What is the value of the multiplier?

If investment increases by 150, by how much will real income

change?

4i. Will the following increase or decrease aggregate supply or

aggregate

demand? Explain very briefly, illustrating each answer with a

simple graph.

a) A large purchase of U.S. wheat by Russia;

b) a 10 percent reduction of personal income tax rates;

c) a new law forces a decline in the percentage of the country's

labor force

which is unionized;

d) a cut in Federal spending for higher education (yikes!)

4ii. What would be three factors which would affect the national

level of

investment? Explain why for each one.

    3.

5a.  State and explain briefly the three principal categories of

unemployment.

b. State and explain briefly two criticisms of the concept of

unemployment and

how it is measured in the U.S.

c. When unemployment rises, what socio-economic groups tend to

suffer more?

d. When inflation suddenly rises, which socio-economic groups

tend to suffer

more?

The median on this exam was 63; the high was 100

Econ 201      Spring, 1995         Exam #1     Professor Twomey

Please PRINT your name on the BACK of the LAST page. Answer on

these sheets,

using the backs if necessary. Please ask for clarification if you

don't

understand the question. Be sure to label your graphs. Time: 1

hour.

1. Identify the following with a sentence or at most two:

a) Say's Law

b) Discretionary Fiscal Policy

c) Fallacy of Composition

d) COLA

e) Natural rate of unemployment

2a. State what is meant by the paradox of thrift. What are two

important

assumptions which are needed for it to be true?

b) Illustrate the paradox of thrift with a graph.

c) Name three economic variables which affect investment.

3a. For the U.S., what are two spending categories that are

important for the

Federal Government, but not for the States or municipalities?

What are two

sources of revenue which differ between the Feds and the States?

b. What is the difference between progressive and regressive

taxes? Are the

following progressive or regressive? Explain very briefly.

    - Federal income tax

    - Michigan income tax

    - property tax

c. Consider a sales tax on beer. Suppose all stock holders in

beer companies

are rich, and that all beer consumers are poor. Will the sales

tax be more

progressive if the demand curve for beer is steep, or flat?

Explain,

illustrating with a graph.

4a) Distinguish between cost push and demand pull inflation.

Illustrate each

one with a graph.

b) Should the following affect aggregate supply or aggregate

demand? Explain

real briefly.

i. deficit reduction is obtained through lower Social Security

payments

ii. deficit reduction is sought by higher personal income taxes

iii. Problems overseas leads the government to increase defense

expenditures

5. Suppose the following tabular description of a consumption

function, where

Y is real GDP, and C is consumption

    Y   200 300 400  500 700

    C   180 260 340  420 580

A) What is the value of the MPC?

  What is the value of the MPS?

B). What is the value of the multiplier?

C) if investment equals 80, what is the equilibrium value of

income?

D) If investment rises by 20, by how much does equilibrium income

rise?

The median on this exam was 78. The high was 96