MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) A production possibilities frontier with a bowed outward shape indicates
   A) constant opportunity costs as more and more of one good is produced.
   B) increasing opportunity costs as more and more of one good is produced.
   C) decreasing opportunity costs as more and more of one good is produced.
   D) the possibility of inefficient production.

2) The natural resources used in production are made available in the
   A) goods and services market.
   B) factor market.
   C) product market.
   D) government market.

For the following questions, suppose an economy produces only food and clothing, and that price and quantity data are given in the table below.

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Good</th>
<th>Quantity</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>20</td>
<td>$6</td>
<td></td>
</tr>
<tr>
<td>Clothing</td>
<td>10</td>
<td>$8</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Year 2</th>
<th>Good</th>
<th>Quantity</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>25</td>
<td>$10</td>
<td></td>
</tr>
<tr>
<td>Clothing</td>
<td>20</td>
<td>$7</td>
<td></td>
</tr>
</tbody>
</table>

3) Year 2 nominal GDP is
   A) $200.
   B) $310.
   C) $270.
   D) $390.

4) What two factors should you equate in deciding how many workers to employ?
   A) The marginal product of labor and the real wage rate
   B) The marginal product of labor and the marginal product of capital
   C) The marginal product of capital and the real wage rate
   D) The marginal product of labor and the real interest rate

5) Assume that the classical labor market can be represented by the following equations:

   Aggregate Production Function: \( Y = 20 + 5N \)
   Labor Demand: \( N^d = 5 - 4(W/P) \)
   Labor Supply: \( N^s = 4 + (W/P) \)

What is equilibrium \( W/P, N, \text{ and } Y \)
   A) \( W/P = 0.20, N = 1.00, \text{ and } Y = 25.00 \)
   B) \( W/P = 0.50, N = 3.00, \text{ and } Y = 35.00 \)
   C) \( W/P = 0.20, N = 4.20, \text{ and } Y = 41.00 \)
   D) Cannot be determined from information given
6) The principle of opportunity cost is that
   A) the cost of production varies depending on the opportunity for technological application.
   B) in a market economy, taking advantage of profitable opportunities involves some money cost.
   C) the economic cost of using a factor of production is the alternative use of that factor that is given up.
   D) taking advantage of investment opportunities involves costs.

7) Suppose that there is an increase in technology. The classical model predicts that
   A) output rises and the price level remains the same
   B) output rises and the price level falls
   C) both output and the price level rises
   D) none of the above

8) When you purchase a new pair of jeans you do so in the
   A) product market. B) factor market.
   C) resource market. D) input market.

Figure 2–7

Figure 2–7 shows the production possibilities frontiers for Pakistan and Indonesia. Each country produces two goods, cotton and cashews.

9) Refer to Figure 2–7. What is the opportunity cost of producing 1 bolt of cotton in Indonesia?
   A) 3/8 of a pound of cashews B) 5/8 of a pound of cashews
   C) 2 2/3 pounds of cashews D) 120 pounds of cashews

10) Refer to Figure 2–7. Which country has a comparative advantage in the production of cotton?
    A) They have equal productive abilities. B) Indonesia
    C) Pakistan D) neither country
11) According to the classical model, a 10-percent increase in the money supply, holding everything else constant, will lead to
A) a 10% increase in prices, a 10% increase in the money wage, and a 10% increase in nominal interest rates
B) a 10% increase in prices, a 10% increase in the real wage, and a 10% increase in interest rates
C) a 10% increase in prices and no change in the money wage or interest rates
D) a 10% increase in prices, a 10% increase in the money wage, and no change in interest rates

12) Which of the following does NOT affect potential GDP?
A) the quantity of land and natural resources
B) the quantity of labor employed
C) the quantity of capital and human capital
D) the amount of entrepreneurial talent available
E) the quantity of money

13) Which of the following is not a characteristic of the classical system?
A) Price flexibility
B) real values, not nominal values, matter
C) Money wage flexibility
D) temporary excess demand and supply in labor markets

14) Adam Smith's invisible hand refers to
A) the process by which individuals acting in their own self-interest bring about a market outcome that benefits society as a whole.
B) the laws of nature that influence economics decisions.
C) the government's unobtrusive role in ensuring that the economy functions efficiently.
D) property ownership laws and the rule of the court system.

15) Which of the following is not a factor of production?
A) a drill press in a machine shop
B) the manager of the local tire shop
C) $1,000 in cash
D) an acre of farmland

16) Diminishing marginal product means that ________.
A) when adding extra units of a single input, output increases become larger
B) when adding extra units of a single input, output declines
C) the amount of output increases when we add more inputs
D) when adding extra units of a single input, output increases become smaller
E) none of the above

17) In the classical model, the only government policy that can affect real output in the economy is:
A) spending policy
B) monetary policy
C) tax policy
D) none of the above.
18) In the classical model, an increase in tax on firms that hired labor would
A) decrease labor demand and the real wage and increase output
B) decrease labor demand, decrease the real wage, and decrease output
C) reduce real wages and increase output
D) decrease labor supply, increase the real wage, and decrease output

19) Classical economists
A) regarded monetary policy as unimportant since the quantity of money does not determine the price level
B) believed that the quantity of money influences interest rates and real wages
C) argued that the money supply determined aggregate demand
D) believed that prices would increase more than proportionate to an increase in the money supply

20) According to the **quantity theory of money**, the quantity of money determines the
A) level of real output
B) level of employment
C) interest rate
D) price level

21) According to the classical model, changes in aggregate demand are driven by
A) changes in taxes
B) changes in the money supply
C) changes in fiscal policy
D) changes in borrowing and lending

22) An invention that speeds up the Internet is an example of
A) an increase in labor.
B) an income effect.
C) a supply shock.
D) a substitution effect.

23) The marginal product of labor
A) decreases as the number of workers employed increases.
B) is larger when the labor supply is relatively larger.
C) is smaller when the labor supply is relatively smaller.
D) is measured by the slope of the production function relating capital to employment.

24) In the classical model, an increase in the government deficit that is bond financed results in:
A) a decrease in the interest rate
B) an increase in consumption
C) an increase in the quantity of saving
D) all of the above

25) The marginal product of capital is the increase in
A) capital needed to produce one more unit of output.
B) labor needed to accompany a one-unit increase in capital.
C) output from a one-unit increase in capital.
D) output from a one-dollar increase in capital.

26) Economic decline (negative growth) is represented on a production possibilities frontier model by the production possibility frontier
A) becoming steeper.
B) shifting inward.
C) becoming flatter.
D) shifting outward.
27) In the classical model, when AD increases due to an increase in money supply, the effect on the equilibrium real wage is:
   A) The same as the effect on real output
   B) The real wage is not affected
   C) The same as the effect on total employment
   D) All of the above

28) In the classical model, an increase in saving is assumed to increase
   A) both the demand for money and loanable funds, which reduces interest rates
   B) the demand for loanable funds, which decreases interest rates
   C) neither the demand for money nor bonds, leaving interest rates unchanged
   D) the supply of loanable funds, which decreases interest rates

29) The slope of the aggregate production function measures
   A) the marginal utility of output
   B) the marginal product of labor
   C) the marginal propensity to produce
   D) none of the above.

30) In the classical model, if money growth and velocity are constant, then
   A) the price level will be constant
   B) the price level will rise at the rate of output growth
   C) the price level will fall at the rate of output growth
   D) none of the above

31) Real output is determined by ______ and the price level by ______ in the Classical model
   A) aggregate demand; aggregate demand
   B) aggregate supply; aggregate supply
   C) aggregate supply; aggregate demand
   D) none of the above.

32) In the classical system, the quantity of money
   A) determines the price level and, for a given real income, the level of nominal income
   B) does not affect the equilibrium values of output, employment, and the interest rate
   C) affects the equilibrium values of output, employment, and the interest rate
   D) Both a and b
   E) Both a and c

33) If there is an increase in government spending that is financed by issuing bonds, then
   A) interest rates should rise which increases private investment
   B) interest rates should fall which increases private investment
   C) interest rates should rise which decreases private investment
   D) interest rates will remain the same unless taxes are reduced as well

34) A winter ice storm has paralyzed the entire east coast, reducing productivity sharply. This supply shock shifts the marginal product of labor curve
   A) up and to the right, reducing the quantity of labor demanded at any given real wage.
   B) down and to the left, raising the quantity of labor demanded at any given real wage.
   C) down and to the left, reducing the quantity of labor demanded at any given real wage.
   D) up and to the right, raising the quantity of labor demanded at any given real wage.
35) Assuming that money is neutral, an increase in the nominal money supply would cause
A) a rise in nominal wages. B) an increase in the real money supply.
C) a fall in the price level. D) an excess supply for goods.

36) A vertical aggregate supply schedule implies that
A) aggregate demand is horizontal B) real wages cannot impact output
C) the price level does not impact output D) unemployment cannot impact output

37) Which of the following changes shifts the Classical aggregate supply curve to the right?
A) A demographic change that reduces the labor supply
B) An increase in consumer confidence
C) A decrease in taxes
D) A decrease in the demand for labor

38) If the demand for labor is plotted against the money wage, with the money wage on the
vertical axis, then
A) an increase in the money wage will cause the labor demand schedule to shift to the
right
B) an increase in the money wage will cause the labor demand schedule to shift to the
left
C) the labor demand schedule will be upward sloping
D) an increase in the price level will cause the labor demand schedule to shift to the
right

39) The production possibilities frontier shows the _______ combinations of two products that
may be produced in a particular time period with available resources.
A) equitable B) minimum attainable
C) only D) maximum attainable

40) Fiscal policy encompasses all of the following except
A) borrowing by the government. B) taxation by the government.
C) monetary injection by the government. D) expenditures by the government.

41) If government spending and tax collections both increase by the same amount, then
according to the classical loanable funds market
A) nothing will shift and the interest rate will remain constant
B) the demand for loanable funds will fall and the interest rate will rise
C) the demand for loanable funds will increase and the interest rate will rise
D) savings will rise and interest rates will fall
42) Refer to Figure 2–1. Point A is
   A) technically efficient.
   B) inefficient in that not all resources are being used.
   C) unattainable with current resources.
   D) the equilibrium output combination.

43) The ______ demonstrates the roles played by households and firms in the market system.
   A) theory of comparative advantage B) production possibilities frontier
   C) business cycle D) circular flow model

44) An example of a supply shock could be ______.
   A) a natural disaster
   B) a technological innovation
   C) an oil price increase
   D) all of the above
   E) none of the above

45) Suppose the marginal product of labor is
   \[ MPN = 200 - 0.5N \]
   where \( N \) is aggregate employment. The aggregate quantity of labor supplied is \( 300 + 8(w/p) \),
   where \( w/p \) is the real wage. What is the equilibrium quantity of employment?
   A) 380 B) 760 C) 190 D) 12

46) What do we learn from the shape of the production function?
   A) the marginal product of labor declines as the labor input falls
   B) its slope remains constant as labor input increases
   C) there are diminishing returns to labor
   D) all of the above
   E) none of the above
47) The real wage rate *definitely* falls if the money wage rate _______ and the price level _______.  
A) remains constant; rises  
B) falls; falls  
C) rises; rises  
D) rises; falls  
E) remains constant; falls  

48) What is the relationship between real and nominal GDP?  
A) real GDP = nominal GDP * Price level  
B) nominal GDP = Real GDP/Price level  
C) real GDP = nominal GDP/Price level  
D) real GDP = nominal GDP - Price level  

49) The most volatile component of real GDP is  
A) Net Exports  
B) Consumption  
C) Investment  
D) Government  

50) The classical economists believed that  
A) labor supply is downward sloping because the income effect is greater than the substitution effect  
B) labor supply is upward sloping because the income effect is greater than the substitution effect  
C) labor supply is upward sloping because the substitution effect is greater than the income effect  
D) in equilibrium, the marginal product of labor must exceed the real wage
Answer Key
Testname: ECON3312_EXAM1_FALL_2014

1) B
2) B
3) D
4) A
5) C
6) C
7) B
8) A
9) A
10) B
11) A
12) E
13) D
14) A
15) C
16) D
17) C
18) B
19) C
20) D
21) B
22) C
23) A
24) C
25) C
26) B
27) D
28) D
29) B
30) C
31) C
32) A
33) C
34) C
35) A
36) C
37) C
38) D
39) D
40) C
41) A
42) B
43) D
44) D
45) A
46) C
47) A
48) C
Answer Key
Testname: ECON3312_EXAM1_FALL_2014

49) C
50) C