

Name: _____
PRETEST 3 VERSION A

Banner: _____

Exhibit 1: Labor and output data

Labor	Output
0	0
1	20
2	45
3	80
4	100
5	110

- 01. Topic: Marginal revenue product, Difficulty: E, Type: SA,**
In Exhibit 1, the marginal product of the 3rd unit of labor is equal to:
- 80.
 - 45.
 - 35.
 - 100.
 - 25.
- 02. Topic: Marginal revenue product, Difficulty: E, Type: SA,**
In Exhibit 1, the marginal product of the 4th unit of labor is equal to:
- 80.
 - 45.
 - 35.
 - 100.
 - 20.
- 03. Topic: Marginal revenue product, Difficulty: M, Type: CA,**
In Exhibit 1, if product price is fixed at \$5, the MRP of the third worker is equal to:
- \$35.
 - \$125.
 - \$25.
 - \$175.
 - \$100.
- 04. Topic: Marginal revenue product, Difficulty: M, Type: CA,**
In Exhibit 1, if product price is fixed at \$5, the MRP of the 4th worker is equal to:
- \$35.
 - \$125.
 - \$25.
 - \$175.
 - \$100.
- 05. Topic: Marginal revenue product, Difficulty: M, Type: CA,**
In Exhibit 1, if product price is fixed at \$8, the MRP of the 2nd worker is equal to:
- \$25.
 - \$125.
 - \$200.
 - \$175.
 - \$45.

- 06. Topic: Derived demand, Difficulty: E, Type: RE,**
A firm's demand for labor depends on, in part, the demand for the firm's product. To summarize this idea, economists say that the demand for labor is:
- derived demand.
 - marginal demand.
 - secondary demand.
 - monopsonistic demand.
- 07. Topic: Labor force, Difficulty: E, Type: RE,**
Stephen Moreno reported to the government interviewer that he worked 40 hours last week as a stocker at a Target department store. He is:
- a member of the civilian labor force who is employed.
 - a member of the civilian labor force who is unemployed.
 - a member of the civilian labor force who is underemployed.
 - a discouraged worker who is not a member of the labor force.
 - not a member of the labor force.
- 08. Topic: Labor force, Difficulty: E, Type: RE,**
Martin Shore lost his job when General Motors closed down its local plant. He has been visiting the personnel offices of the other factories in the area, looking for a new job. He is:
- a member of the civilian labor force who is employed.
 - a member of the civilian labor force who is unemployed.
 - a member of the civilian labor force who is underemployed.
 - a discouraged worker who is not a member of the labor force.
 - not a member of the labor force.
- 09. Topic: Derived demand, Difficulty: E, Type: RE,**
Since the demand for labor depends on the demand for the product labor produces, the demand for labor is called:
- primary demand.
 - secondary demand.
 - dependent demand.
 - derived demand.
- 10. Topic: Labor supply curve, Difficulty: E, Type: SA,**
If a union is able to successfully lobby Congress to limit imports of rival products, and thus to raise the demand (and thus price) for goods or services they make, then which of the following *best* describes the outcome?
- The supply of labor will increase.
 - The demand for labor will increase.
 - The supply of labor will decrease.
 - The demand for labor will decrease.
- 11. Topic: Labor supply curve, Difficulty: E, Type: SA,**
A union may attempt to obtain stricter certification requirements or longer apprenticeships. These changes would raise workers' wages because they:
- create unnecessary unemployment.
 - shift in labor supply curve leftward.
 - decrease the marginal product of labor.
 - reduce management's use of featherbedding.

12. **Topic: Human capital, Difficulty: E, Type: SA,**
One reason the supply of carpenters is greater than the supply of physicians is because:
- carpenters demand less income.
 - physicians do not belong to a union.
 - of differences in human capital.
 - carpenters belong to unions.
13. **Topic: Change in demand for labor, Difficulty: M, Type: SA,**
Suppose a change in technology increases the marginal product of labor. The result is a (an):
- downward movement along the demand for labor curve.
 - rightward shift in the demand for labor curve.
 - leftward shift in the demand for labor curve.
 - upward movement along the demand for labor curve..
14. **Topic: Minimum wage, Difficulty: E, Type: SA,**
In Exhibit 3, suppose that in the interest of boosting incomes of the working poor, Congress imposes a minimum wage of \$6.00 per hour. This minimum wage rate creates a (an):
- new labor market equilibrium.
 - excess demand for labor of 10 thousand food servers.
 - excess supply of labor of food servers.
 - situation of full employment for food servers.

Exhibit 5: A perfectly competitive labor market

Quantity of Labor (thousands)	Marginal Revenue Product	Total Labor Cost
5	\$25.00	\$ 5.00
10	20.00	10.00
15	15.00	15.00
20	10.00	20.00
25	5.00	25.00

15. **Topic: Marginal revenue product, Difficulty: D, Type: CA,**
In Exhibit 5, when the marginal revenue product is \$20.00, the firms should _____ workers.
- continue hiring
 - stop hiring
 - start firing
 - pay a wage above \$15.00 to its workers
16. **Topic: Equilibrium wage, Difficulty: M, Type: CA,**
In Exhibit 5, how many thousands of workers are firms willing to hire?
- 20.
 - 10.
 - 15.
 - All 30 workers.

- 17. Topic: Equilibrium wage, Difficulty: M, Type: CA,**
In Exhibit 5, at what wage rate will the firms hire these workers?
- \$25.00
 - \$20.00
 - \$15.00
 - \$10.00
 - \$0
- 18. Topic: Change in demand for labor, Difficulty: M, Type: SA,**
Which of the following would cause the demand for labor to change?
- c and e.
 - A change in the cost of living.
 - Changes in the wage rate.
 - Movements along the labor demand curve.
 - A change in the price of the good produced.
- 19. Topic: Labor union, Difficulty: E, Type: SA,**
A union can influence the demand for labor by:
- requiring union fees.
 - raising union fees.
 - effective advertising that convinces customers to buy the "union label."
 - all of the above.
- 20. Topic: Gross domestic product, Difficulty: M, Type: RE,**
The largest component of household consumption spending is expenditures on:
- services.
 - durable goods.
 - nondurable goods.
 - food.
 - transportation.
- 21. Topic: Circular flow model, Difficulty: M, Type: RE,**
Gross domestic product is a measure of both the:
- market value of a nation's capital assets (physical capital).
 - expenditures on and sales revenues derived from all goods and services exchanged during a period.
 - market value of the output produced during a period.
 - asset holdings of people and the happiness that they derived from the ownership of those assets.
- 22. Topic: Circular flow model, Difficulty: D, Type: RE,**
The portion of the four-sector circular flow model which shows the flow of funds from savers to borrowers is the:
- product market.
 - factor market.
 - savings market.
 - financial market.

- 23. Topic: Expenditure approach, Difficulty: M, Type: SA,**
 All final goods and services that make up GDP can be expressed in the form:
- $GDP = C + I - G + (X + M)$.
 - $GDP = C + I + G + (X + M)$.
 - $GDP = C + I + G + (X - M)$.
 - $GDP = C + I + (X - M)$.
 - $GDP = C + I + G$.

Exhibit 3: Expenditure approach

National income account	(billions of dollars)
Personal consumption expenditures (C)	\$1,000
Exports (X)	120
Federal government spending (G)	200
State and local government spending (G)	400
Imports (M)	20
Gross private domestic investment (I)	75

- 24. Topic: Expenditure approach, Difficulty: E, Type: SA,**
 As shown in Exhibit 3, total expenditures by households for domestically produced goods is:
- \$1,000 billion.
 - \$100 billion.
 - \$600 billion.
 - \$20 billion.
- 25. Topic: Expenditure approach, Difficulty: M, Type: RE,**
 As shown in Exhibit 3, total expenditures by businesses for fixed investment (capital) and inventories is:
- \$1,000 billion.
 - \$100 billion.
 - \$400 billion.
 - \$20 billion.
 - \$75 billion.
- 26. Topic: Expenditure approach, Difficulty: M, Type: SA,**
 As shown in Exhibit 3, net exports are:
- \$75 billion.
 - \$100 billion.
 - \$20 billion.
 - \$120 billion.
- 27. Topic: Expenditure approach, Difficulty: E, Type: SA,**
 As shown in Exhibit 3, using the expenditure approach, GDP is:
- \$1,000 billion.
 - \$1,500 billion.
 - \$1,775 billion.
 - \$2,000 billion.

- 28. Topic: National income, Difficulty: D, Type: RE,**
National income is calculated by subtracting _____ from GDP:
- depreciation.
 - investment and net exports.
 - Social Security insurance contributions and transfer payments.
 - corporate and personal income taxes.
- 29. Topic: Personal income, Difficulty: D, Type: RE,**
Personal income is:
- total income received by households before taxes.
 - the amount households have available for consumption, savings, and payment of personal taxes.
 - national income minus corporate profits and Social Security (FICA) plus transfer payments, and other income.
 - all of the above.
- 30. Topic: Disposable personal income, Difficulty: D, Type: RE,**
Which national income account should be examined to discover trends in the after-tax income that people have to save and spend?
- Gross domestic product (GDP).
 - Personal income (PI).
 - National income (NI).
 - Disposable personal income (DI).
- 31. Topic: Business cycle, Difficulty: M, Type: RE,**
A business cycle is the period of time in which:
- a business is established and ceases operations.
 - there are four phases: peak, recession, trough and recovery.
 - the price level varies with real GDP.
 - expansion and contraction of economic activity are equal.
 - none of the above are true.
- 32. Topic: Business cycle, Difficulty: M, Type: RE,**
What stage of the business cycle immediately follows the trough?
- Peak.
 - Recovery.
 - Recession.
 - Depression.
- 33. Topic: Leading indicators, Difficulty: E, Type: RE,**
Variables that change before real GDP changes are measured by the:
- personal income index.
 - real GDP index.
 - forecasting gauge.
 - index of leading indicators.

- 34. Topic: Coincident indicators, Difficulty: M, Type: RE,**
Which of the following is *not* a coincident indicator?
- Personal income.
 - Industrial production.
 - Manufacturing and trade sales.
 - All of the above.
- 35. Topic: Lagging indicators, Difficulty: M, Type: RE,**
Which of the following is a lagging indicator?
- Outstanding commercial loans.
 - Duration of unemployment.
 - Prime rate.
 - All of the above.
- 36. Topic: Labor force, Difficulty: E, Type: RE,**
Stephen Moreno reported to the government interviewer that he worked 40 hours last week as a stocker at a Target department store. He is:
- a member of the civilian labor force who is employed.
 - a member of the civilian labor force who is unemployed.
 - a member of the civilian labor force who is underemployed.
 - a discouraged worker who is not a member of the labor force.
 - not a member of the labor force.
- 37. Topic: Discouraged worker, Difficulty: M, Type: RE,**
The number of people officially unemployed is *not* the same as the number of people who can't find a job because:
- the armed forces is included.
 - some people have jobs but continue to look for a better one.
 - some people who can't find a job become discouraged and quit looking.
 - none of the above.
- 38. Topic: Frictional unemployment, Difficulty: M, Type: RE,**
Sharon was being treated unfairly by her boss, so she stormed off the job and two days later found another position. For two days, Sharon experienced:
- cyclical unemployment.
 - structural unemployment.
 - seasonal unemployment.
 - frictional unemployment.
 - being out of the labor force.
- 39. Topic: Structural unemployment, Difficulty: E, Type: SA,**
Which type of unemployment is experienced by a person who is laid off at an office because word processing equipment and software reduce the need for typists?
- Seasonal.
 - Cyclical.
 - Voluntary.
 - Structural.
 - Frictional.

- 40. Topic: Cyclical unemployment, Difficulty: E, Type: RE,**
The type of unemployment that occurs because of a recession is called:
- frictional unemployment.
 - seasonal unemployment.
 - natural unemployment.
 - cyclical unemployment.
- 41. Topic: Full employment, Difficulty: D, Type: CA,**
The economy is considered to be at full employment when:
- the actual rate of unemployment is less than the natural rate.
 - the leading economic indicators are unchanged for two consecutive quarters.
 - structural unemployment is zero.
 - frictional plus structural unemployment is less than the natural rate.
 - the rate of cyclical unemployment is zero.
- 42. Topic: GDP gap, Difficulty: E, Type: SA,**
Actual GDP will be below potential GDP:
- when the economy is at full employment.
 - during an economic boom.
 - when resources are fully utilized.
 - during a recession.
- 43. Topic: Inflation, Difficulty: E, Type: SA,**
Which one of the following groups benefits from inflation?
- Borrowers.
 - Savers.
 - Landlords.
 - Lenders.
- 44. Topic: Inflation, Difficulty: E, Type: SA,**
In periods of high inflation,
- people want to hold on to as much money as possible.
 - the purchasing power of money is decreasing.
 - nobody wants to work and earn income.
 - low nominal interest rates are likely to result.
 - nobody wants to buy goods and services.
- 45. Topic: Consumer price index, Difficulty: D, Type: CA,**
Suppose that the consumer price index (CPI) was 160 in Year X and 166 in Year Y, inflation during Year Y was approximately:
- zero; prices were stable.
 - 3.8 percent.
 - 6 percent.
 - 66 percent.

46. Topic: Deflation, Difficulty: M, Type: SA,

Deflation:

- a. was prevalent during the oil shocks of the 1970s.
- b. under the current trends will cause consumers' purchasing power to shrink.
- c. has been persistent in the U.S. economy since the Great Depression.
- d. none of the above

47. Topic: Disinflation, Difficulty: E, Type: RE,

A reduction in the rate of inflation is called:

- a. deflation.
- b. disinflation.
- c. hyperinflation.
- d. cost-push inflation

48. Topic: Real income, Difficulty: D, Type: SA,

A worker would be hurt least by inflation when the:

- a. worker anticipates inflation and increases savings at the bank.
- b. worker is protected by a cost-of-living adjustment clause in an employment contract.
- c. price level increases but at a decreasing rate.
- d. worker is protected by fixed annual increases in wages and benefits in an employment contract.

49. Topic: Demand-pull inflation, Difficulty: M, Type: RE,

Demand-pull inflation occurs:

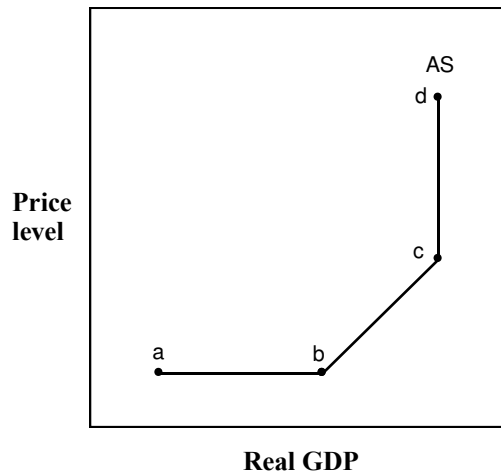
- a. at or close to full employment.
- b. because of excess total spending.
- c. when "too much money is chasing too few goods."
- d. all of the above.

50. Topic: Cost-push inflation, Difficulty: E, Type: RE,

Suppose the Organization of Petroleum Exporting Countries (OPEC) sharply increased the price of oil, which triggered higher inflation rates in the United States. This type of inflation is *best* classified as:

- a. pseudo-inflation.
- b. demand-pull inflation.
- c. cost-push inflation.
- d. hyperinflation.

Exhibit 1 Aggregate supply curve



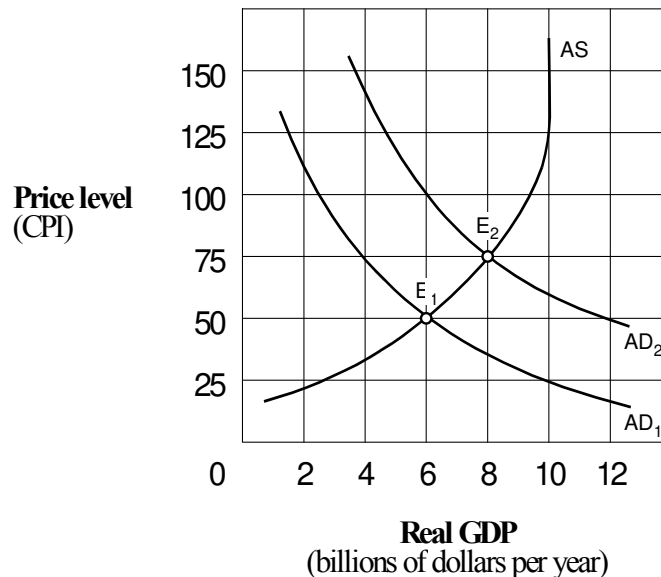
51. **Topic: Ranges of aggregate supply, Difficulty: D, Type: SA,**
In Exhibit 1, resources are fully employed, and competition among producers for resources will lead to a higher price level in:
- the segment labeled ab.
 - the segment labeled bc.
 - the segment labeled cd.
 - both segment bc and segment cd.
 - the entire curve.
52. **Topic: Ranges of aggregate supply, Difficulty: M, Type: SA,**
In Exhibit 1, higher price levels allow producers to earn higher profits, stimulating production and employment in:
- the segment labeled ab.
 - the segment labeled bc.
 - the segment labeled cd.
 - both segment bc and segment cd.
 - the entire curve.
53. **Topic: Ranges of aggregate supply, Difficulty: M, Type: SA,**
In Exhibit 1, as production increases, firms resort to offering higher-wage rates to attract the dwindling supply of unemployed resources in:
- the segment labeled ab.
 - the segment labeled bc.
 - the segment labeled cd.
 - both segment bc and segment cd.
 - the entire curve.

54. **Topic: Stagflation, Difficulty: M, Type: CA,**
Which of the following events is the *most* likely to create stagflation?
- An increase in the money supply.
 - A reduction in the amount spent on national defense.
 - A doubling of oil prices.
 - A decrease in investment spending.

55. **Topic: Cost-push inflation, Difficulty: M, Type: RE,**
Cost-push inflation occurs when the:
- aggregate demand curve shifts leftward while the aggregate supply curve is fixed.
 - aggregate supply curve shifts leftward while the aggregate demand curve is fixed.
 - aggregate demand curve shifts rightward while the aggregate supply curve is fixed.
 - aggregate supply curve shifts rightward.

56. **Topic: Demand-pull inflation, Difficulty: M, Type: RE,**
An increase in the price level caused by a rightward shift of the aggregate demand curve is called:
- cost-push inflation.
 - supply shock inflation.
 - demand shock inflation.
 - demand-pull inflation.

Exhibit 4: Aggregate supply and demand curves



57. **Topic: Change in aggregate demand, Difficulty: M, Type: SA,**
In Exhibit 4 which of the following is *not* consistent with a shift in the aggregate demand curve from AD_1 to AD_2 ?
- A decrease in consumer spending.
 - An increase in investment.
 - An increase in government spending.
 - An increase in net exports.

- 58. Topic: AD-AS model, Difficulty: E, Type: SA,**
In Exhibit 4, point E_2 represents:
- real GDP above full-employment GDP.
 - real GDP that equals full-employment GDP.
 - a depression.
 - real GDP below full-employment GDP.
- 59. Topic: AD-AS model, Difficulty: M, Type: SA,**
As the economy moves to the right in Exhibit 4 along the upward-sloping aggregate supply curve the:
- unemployment rate rises.
 - unemployment rate falls.
 - inflation rate falls.
 - none of the above.
- 60. Topic: Demand-pull inflation, Difficulty: M, Type: SA,**
As the aggregate demand curve shifts from AD_1 to AD_2 in Exhibit 4, the economy experiences:
- cost-push inflation.
 - demand-pull inflation.
 - wage-push inflation.
 - hyperinflation.