

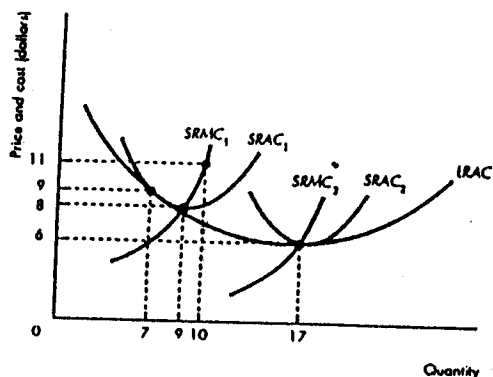
INSTRUCTION: There are 16 multiple-choice questions and five problems in this exam. Multiple questions are 2.5 points each. If you choose wrong answer, 0.5 point will be deducted from the score you get from the right answer. Each problem is given different points indicated in each problem.

I. Multiple Choice: (choose the best answer.)

1. If Ms. Petersen is maximizing her utility in the consumption of goods A and B, which of the following statements must be true?
  - a.  $M_A = M_B$
  - b.  $\frac{M_A}{P_A} = \frac{M_B}{P_B}$
  - c.  $\frac{M_A}{P_B} = \frac{M_B}{P_A}$
  - d.  $TU_A = TU_B$
2. Which of the following is NOT an assumption of marginal utility theory?
  - a. Consumers derive utility from consuming goods.
  - b. Marginal utility is positive.
  - c. Utility is maximized when the marginal utility per dollar spent is equal for all goods.
  - d. As consumption of a good increases, the marginal utility declines.
3. In general, as a consumer moves along an indifference curve, increasing consumption of good X (measured on the horizontal axis),
  - a. more of Y must be given up for each additional unit of Y.
  - b. less of Y must be given up for each additional unit of X.
  - c. the relative price of Y increases.
  - d. the relative price of Y decreases.
4. A technological advance will shift
  - i) TP, AP, and MP curves up.
  - ii) TP, AP, and MP curves down.
  - iii) TC, ATC, and MC curves up.
  - iv) TC, ATC, and MC curves down.
  - a. i) and iii) are true.
  - b. i) and iv) are true.
  - c. ii) and iii) are true.
  - d. ii) and iv) are true.

5. If a profit-maximizing firm's marginal revenue is less than its marginal cost, the firm
  - a. must be experiencing economic losses.
  - b. must be experiencing economic profits.
  - c. should decrease its output.
  - d. should increase its output.
6. Figure 1 illustrates the cost curves for a perfectly competitive firm. In long-run equilibrium, the market price will be
  - a. \$6.
  - b. \$8.
  - c. \$9.
  - d. \$11.

Figure 1



7. Why is the quantity of output produced by a single-price monopolist allocatively inefficient?
  - a. Average social cost exceeds average social benefit.
  - b. Marginal social cost exceeds marginal social benefit.
  - c. Average social benefit exceeds average social cost.
  - d. Marginal social benefit exceeds marginal social cost.
8. In the long run, a monopolistically competitive firm will produce the output at which price equals
  - a. marginal cost.
  - b. marginal revenue.
  - c. average variable cost.
  - d. average total cost.

9. If net taxes are one fourth ( $1/4$ ) of real GDP and the marginal propensity to consume out of disposable income is .8, then the marginal propensity to consume out of real GDP is
- 0.2.
  - 0.4.
  - 0.6.
  - 0.8.
10. Which of the following is an example of an automatic stabilizer? As real GDP increases,
- consumption expenditure increases.
  - income taxes increase.
  - spending on imports increases.
  - investment spending in unaffected.
11. If banks hold 10 percent of deposits as reserves and households and firms want to hold 20 percent of deposits as currency, the money multiplier is
- 2.8.
  - 3.
  - 4.
  - 10.
12. There will be no crowding out if
- the demand for real money is totally unresponsive to changes in the interest rate.
  - the supply of real money is totally unresponsive to changes in the interest rate.
  - investment is totally unresponsive to changes in the interest rate.
  - investment is totally unresponsive to changes in real GDP.
13. An increase in the deficit will leave future generations with a smaller capital stock if it causes
- the supply of loans to increase more than the demand for loans.
  - the demand for loans to increase more than the supply of loans.
  - the demand for loans to increase by the same amount as the supply of loans.
  - the supply of loans to increase and the demand for loans to decrease.
14. According to the flexible wage theory, if the price level increases, then real GDP supplied will
- remain unchanged but, according to the sticky wage theory, real GDP supplied will increase.
  - increase and, according to the sticky wage theory, real GDP supplied will also increase.
  - increase but, according to the sticky wage theory, real GDP supplied will remain unchanged.
  - decrease but, according to the sticky wage theory, real GDP supplied will increase.
15. Which of the following is true?
- The behavior of fiscal policy has generally been consistent with the political business cycle theory while the behavior of monetary policy has generally been inconsistent.
  - The behavior of fiscal policy has generally been inconsistent with the political business cycle theory while the behavior of monetary policy has generally been consistent.
  - The behavior of both fiscal policy and monetary policy has generally been inconsistent with the political business cycle theory.
  - The behavior of both fiscal policy and monetary policy has generally been consistent with the political business cycle theory.
16. Suppose that in a country, government purchases of goods and services is \$400 billion, taxes (net of transfer payments) is \$300 billion, saving is \$300 billion, and investment is \$250 billion. The current account
- surplus is \$150 billion.
  - surplus is \$50 billion.
  - deficit is \$150 billion.
  - deficit is \$50 billion.

II. PROBLEMS

1. Jan and Dan both like bread and peanut butter and have the same income. Since they each face the same prices, they have identical budget lines. Currently, Jan and Dan consume exactly the same quantities of bread and peanut butter; that is, they have the same best affordable consumption point. Jan, however, views bread and peanut butter as close (though not perfect) substitutes, while Dan considers bread and peanut butter to be quite (but not perfectly) complementary.

- In the same diagram, draw the budget line and relevant indifference curves for Jan and Dan. (Measure the quantity of bread on the horizontal axis.)
- Now, suppose the price of bread declines. Graphically represent the substitution effects for Jan and Dan. For whom is the substitution effect greater?

2. Graphically illustrate a firm in a monopolistically competitive industry in the short-run which is

- making a profit.
- making a loss sufficiently large that the firm will shut down in the short run.

3. Use the data for the same imaginary economy given in Table 1 to compute the following.

- net domestic income at factor cost.
- net domestic product at market prices.

Table 1

Item	Amount (billions of \$)
Compensation of employees	\$550
Indirect taxes	120
Subsidies	20
Rental income	20
Corporate profits	80
Net interest	90
Depreciation	60
Proprietor's income	70

4. Consider an economy with the following characteristics:

- Autonomous part of consumption expenditure = \$10 billion
- Investment = \$5 billion
- Government purchases of goods and services = \$40 billion
- Exports = \$5 billion
- Marginal propensity to consume (out of disposable income) = 0.8
- Marginal propensity to import (out of real GDP) = 0.14
- Marginal tax rate (constant) = 0.2

Now suppose that the government decides to increase its purchases of goods and services by \$20 billion (from \$40 billion to \$60 billion).

- What is the new equilibrium expenditure?
- What is the multiplier?
- What is the change in consumption, imports, and investment after the increase?

5. The information in Table 2 is for a country during a given year.

Table 2

Variable	Amount (billions of dollars)
GDP	\$800
Taxes (net of transfer payments)	200
Government budget deficit	50
Consumption	500
Investment	150
Imports	150

- What is the level of government expenditure on goods and services?
- What is the private sector surplus or deficit?
- What is the value of exports?
- What is the current account surplus or deficit?