



NAME :

DATE :

True or false , and explain why ?

1. *If a country could maintain a high economic growth rate , the country would eventually be able to satisfy everyone's wants for goods and services .*
2. *If all the nations of the world disarmed , the international economy would collapse into a long depression and unemployment would increase .*
3. *Money is an important economic resource .*
4. *The higher the GDP , the better off all the people of the country are .*
5. *Full employment means zero unemployment .*
6. *Unanticipated inflation hurts almost everyone .*
7. *The chief task of the Federal Reserve system is to insure the deposits of bank customers .*
8. *Tariffs are needed to protect our standard of living from competition from cheap foreign labor .*
9. *Measuring short – run economic growth . Answer the following questions based on the data in the table below :*

Nominal and Real GDP

| | <i>Nominal GDP</i> | <i>Price Index</i> | <i>Population</i> |
|-------------------|--------------------|--------------------|-------------------|
| <i>Year two</i> | <i>\$ 5,000</i> | <i>125</i> | <i>11</i> |
| <i>Year three</i> | <i>\$ 6,600</i> | <i>150</i> | <i>12</i> |

- A. *What is the real GDP in year two ?*
- B. *What is the real GDP in year three ?*
- C. *What is the real GDP per capita in year two ?*
- D. *What is the real GDP per capita in year three ?*
- E. *What is the rate of real output growth between years two and three ?*

- F. What is the rate of real output growth per capita between years two and three ?*
- 10. Which of the following are included and which are excluded in calculating GDP ? Explain your decisions .**
- A. A monthly check received by an economics student who has been granted a government scholarship*
 - B. A farmer's purchase of a new tractor*
 - C. A plumber's purchase of a two year old used truck*
 - D. Cashing a United States government bond*
 - E. The services of a mechanic in fixing the radiator on his own car*
 - F. A Social Security check from the government to a retired store clerk*
 - G. An increase in business inventories*
 - H. The government's purchase of a new submarine for the Navy*
 - I. A barber's income from cutting hair*
 - J. Income received from the sale of Nike stock*
- 11. Understanding how and why GDP is counted > Answer the following questions :**
- A. Why do we only count the final retail price of a new good or service ?*
 - B. Why do we not count a purely financial transaction ?*
 - C. When a homeowner does home improvement work , why is the value of the labor not counted in GDP ?*
- 12. Decide which of the following people , or groups , are hurt or benefit from unanticipated inflation . If you are unsure also indicate that . Provide an explanation to support you view :**
- A. A farmer buys machinery with a fixed rate loan to be repaid over a ten year period*
 - B. Your family buys a new home with an adjustable rate mortgage*
 - C. Your savings from your summer job are in a savings account paying a fixed rate of interest*
 - D. A widow lives entirely on income from fixed rate corporate bonds*
 - E. The federal government has a five trillion dollar debt*

- F. A local government receives revenue mainly from fixed rate license fees it charges businesses*
- G. Your friend rents an apartment with a three year lease*
- H. A bank has loaned millions of dollars for home mortgages at a fixed rate of interest*
- I. Parents are putting savings for their child's education in a savings account*

**** What conclusions can you draw about who is helped and hurt by unanticipated inflation ?**

13. *Label the following situations as either ; frictional unemployment (F) , cyclical unemployment (C) , or structural unemployment (S)*
 - A. A computer programmer is laid off because of a recession*
 - B. An unemployed college graduate is looking for his first job*
 - C. Advances in technology make the assembly line worker's job obsolete*
 - D. An individual refuses to work for minimum wage*
 - E. A high school graduate lacks the skills necessary for a particular job*
 - F. Workers are laid off when the local manufacturing plant closes because the product made there isn't selling*
14. *The unemployment rate and employment both go up . Ellen says that it is not possible for both to rise at the same time . Is Ellen correct or incorrect ? Why ?*
15. *True , false , or uncertain , and explain why ? “ Gross domestic product measures the amount of wealth in the economy . ”*
16. *True , false , or uncertain , and explain why ? “ If nominal GDP increase by five percent and the price level increases by seven percent , real GDP has decreased . ”*
17. *True , false , or uncertain , and explain why ? “ In preparing an index of prices , it is important that all commodities in the index be given equal weight . ”*
18. *True , False , or uncertain , and explain why ? “ Frictional and structural unemployment are two words for the same thing . ”*
19. *Why does unanticipated inflation help borrowers and hurt lenders ?*
20. *True , False , or uncertain , and explain why ? “ Inflation always increases when unemployment decreases . ”*

21. *True , false , or uncertain , and explain why ? “ If the economy is at full employment , the unemployment rate is zero . ”*
22. *True , false , or uncertain , and explain why ? “ Seasonal unemployment is a continual worry for government because some people are out of work on a regular basis . ”*
23. *Answer the following questions about GDP :*
- A. *Explain whether this statement is true , false , or uncertain : “ To ignore the production of intermediate goods when measuring the total product of a country means ignoring the work , the efforts , and the incomes of millions of citizens . This is a mistake and can be corrected only by including intermediate goods production in GDP figures . ”*
- B. *Give two reasons for using real GDP per capita as a measure of the standard of living for a nation .*
- C. *Give two reasons why real GDP per capita is not a good measure of the standard of living for a nation .*
24. *You read the headline : “ Real GDP Rises 3 % This Year ; Further Increases Likely Next Year , Economists Say . ”*
- A. *What does this headline mean ? Be specific .*
- B. *Why do people care about the growth of real GDP ?*
- C. *What is the difference between real GDP and nominal GDP ?*
25. *You read the following information about the economy :*
- *Real GDP is up 3 % from a year ago*
 - *The unemployment rate is 4.6 %*
 - *The consumer price index is up 6 % from a year ago*
 - *The index of leading economic indicators is up for the last six months*
 - *The prime interest rate is 10 % , up from 7 % a year ago*

Explain what each of these economic indicators measures and the significance of the current data for the economy .

REAL AP MACRO FRQ s (04 B)

Section II Planning Time—10 minutes Writing Time—40 minutes each section

Directions: *You have fifty minutes to answer the three questions . It is suggested that you spend approximately half your time on the first question and divide the remaining time equally between the next two questions. In answering the questions, you should emphasize the line of reasoning that generated your results; it is not enough to list the results of your analysis. Include correctly*

labeled diagrams, if useful or required, in explaining your answers. A correctly labeled diagram must have all axes and curves clearly labeled and must show directional changes.

1. Assume that a country's economy is in equilibrium.

(a) Using a correctly labeled aggregate demand and aggregate supply graph, show how an increase in the price of oil, an important natural resource, will affect the following in the short run :

- (i) Real output*
- (ii) Price level*

(b) Using a correctly labeled graph, show how the increase in the price of oil affects the short-run Phillips curve.

(c) Assume that the central bank of the country responds to the higher price of oil by increasing the money supply :

- (i) Explain the process by which the increase in the money supply will affect the aggregate demand in the short run.*
- (ii) Indicate how the increase in the money supply will affect real output and the price level.*

(d) Now assume that instead of using monetary policy in response to the oil price increase, the government reduces business taxes, which results in lower production costs. Using a new correctly labeled graph, show the effect of the reduction in business taxes on the following :

- (i) Real output*
- (ii) Price level*

2. Due to an international financial crisis, Canada experiences a significant inflow of funds from other countries. Explain the effect that this inflow of funds will have on the following. :

- (a) The international value of the Canadian dollar*
- (b) Canadian net exports*
- (c) The real interest rate in Canada*
- (d) The level of investment in Canada*

3. The table below gives the production alternatives of two nations that are producing cloth and food, using equal amounts of resources.

OUTPUT PER WORKER PER DAY

| <u>Country</u> | <u>Units of Cloth</u> | <u>Units of Food</u> |
|----------------|-----------------------|----------------------|
| Newland | 10 | 2 |
| Beeland | 10 | 1 |

- (a)** ***(i) Calculate the opportunity cost of producing a unit of cloth in Newland.***

(ii) Calculate the opportunity cost of producing a unit of food in Beeland.
- (b)** ***(i) Which nation has the comparative advantage in cloth production?***

(ii) Which nation has the comparative advantage in food production?
- (c)** ***Now assume that the productivity of Beeland's workers triples for each good.***

(i) Which country has a comparative advantage in food production?

(ii) Explain how you determined your answer.