Multiple Choice (27 questions, 3 points each; 81 points total). Clearly indicate (by circling) the ONE BEST response to each of the following questions.

1. Which of the following people would be counted as officially unemployed?
   A. Chandler is involved in a union strike and has not worked in the past week.
   B. Phoebe is an at-home mom raising her children; she spent the weekend looking at help wanted ads.
   C. Rachel has not been able to find work for six months. Frustrated, she has given up looking.
   D. Joey was laid off last week from his job. He made phone calls to potential new employers this week. However, he does not qualify for unemployment insurance.

2. Inflation is an increase in prices, and is measured by:
   A. The price level.
   B. The difference in the price level from one year to the next.
   C. A price index.
   D. The percentage change in a price index from one year to the next.

3. Deion Sanders is a two-sport athlete who plays both pro football and baseball. He could earn $5,000,000 playing either. Troy Aikman is also a two-sport athlete who plays both football and auto racing. He could earn $6,000,000 playing football or $1,000,000 racing cars. Garo Yepremian can play football and soccer. He could earn $1,000,000 playing football or $500,000 playing soccer. Assuming that all three men have only two options for work, and can only pursue one sport full-time, who has the highest opportunity cost of NOT playing football (that is, playing a sport other than football)?
   A. Deion Sanders.
   B. Troy Aikman.
   C. Garo Yepremian.
   D. Their opportunity costs are the same.

4. Which of the following is an example of an intermediate product?
   A. A pair of skis sold by a sporting goods retailer to a skier.
   B. A share of IBM stock.
   C. The lumber produced by Boise Cascade and sold to a builder of new houses.
   D. An antique car sold to the highest bidder.

5. Which of the following best measures the impact of changes in prices on households?
   A. The price level.
   B. CPI.
   C. GDP Deflator.
   D. PPI.
6. If the number of people classified as unemployed is 20,000 and the number of people classified as employed is 230,000, what is the unemployment rate?
   A. 8.0 %
   B. 8.7 %
   C. 9.2 %
   D. 11.5 %

7. If a country’s real GDP and population are, respectively, $500 billion ($500,000 million) and 200 million, then its per capita real output is:
   A. $250.
   B. $1,000.
   C. $2,500.
   D. $10,000.

8. Gross Domestic Product measured in current dollars is:
   A. Real GDP.
   B. Nominal GDP.
   C. Current GDP.
   D. Constant GDP.

9. Suppose that a bank expects inflation to be 3 percent and charges borrowers an interest rate of 7 percent accordingly. Now suppose that inflation is actually 4 percent. In this case:
   A. The real interest rate is higher than expected, banks are better off, and borrowers are worse off than expected.
   B. The real interest rate is higher than expected, banks are worse off, and borrowers are better off than expected.
   C. The real interest rate is lower than expected, banks are better off, and borrowers are worse off than expected.
   D. The real interest rate is lower than expected, banks are worse off, and borrowers are better off than expected.

10. Workers at a car-manufacturing plant are let go because automated machinery has been installed that requires fewer employees to operate. What type of unemployment describes the workers’ situation?
    A. Cyclical unemployment.
    B. Full unemployment.
    C. Structural unemployment.
    D. Frictional unemployment.

11. The government reduces the personal income tax rate to encourage increased spending by households. This is an example of:
    A. Incomes policy.
    B. Monetary policy.
    C. Fiscal policy.
    D. Supply-side policy.
12. The main reason we deflate nominal values into real values is to:
   A. Give Dr. Laury something to teach in macro.
   B. Calculate inflation rates.
   C. Make meaningful comparisons of economic variables across years.
   D. Make sure all the comparisons are done in terms of current dollars.

13. If you own a building and you decide to use that building to open a restaurant:
   A. There is no opportunity cost of using this building for a restaurant because you
      own it.
   B. There is an opportunity cost of using this building for a restaurant because it
      could have been used in other ways.
   C. The only cost relevant to this decision is the price you paid for the building.
   D. There are no costs of this decision because you paid for the building prior to
      opening the restaurant.

14. It has become conventional to classify an economic downturn as a recession when
    aggregate output has declined for at least:
   A. Two consecutive quarters.
   B. Three consecutive quarters.
   C. One year.
   D. Two years.

15. In July there were 6,000 people classified as unemployed, and the size of the labor
    force was 100,000. The only change between July and August was that 2,000 people
    without jobs gave up looking for work. Which of the following is true?
    A. In both July and August the unemployment rate was 6 percent.
    B. In July the unemployment rate was 5.5 percent and in August it was 4 percent.
    C. In July the unemployment rate was 6 percent and in August it was 4.08
       percent.
    D. In July the unemployment rate was 6 percent and in August it was 4 percent.

16. Which of the following would increase this year’s GDP?
   A. A mother quits her job to take care of her newborn child.
   B. A commission charged by your broker when you sold 100 shares of Webvan
      stock.
   C. A $10,000 inheritance from Aunt Mary.
   D. Receipts from a yard sale.

17. If the CPI in 1979 was 72.6 and it was 82.4 in 1980, what is the best estimate of the
    rate of inflation from 1979 to 1980?
   A. 9.8 %
   B. 11.9 %
   C. 13.5 %
   D. 17.4 %
18. If nominal output is $4.4 trillion and the GDP deflator is 110, then real output is:
   A. $4.84 trillion.
   B. $4.40 trillion.
   C. $4.00 trillion.
   D. $3.84 trillion.

19. If inflation is greater than the stated (nominal) interest rate on a loan, the real interest rate is:
   A. Zero
   B. Positive.
   C. Negative.
   D. Either positive or zero.

20. General Motors’ European branch, Opel, is one of the largest car companies operating in Europe. Imagine that Opel makes profits of $1.5 billion in 1999 and the tax rate in Europe is 40 percent. Also assume the tax rate in the United States is 30 percent. How much will US GDP rise due to Opel’s success?
   A. $0.00 billion.
   B. $0.90 billion.
   C. $1.05 billion.
   D. $1.50 billion.

21. Your opportunity cost of taking this course is:
   A. The tuition you paid for the course.
   B. The benefit of taking this course.
   C. The benefit of the activity you would have chosen if you had not taken the course.
   D. The cost of the activity you would have chosen if you had not taken the course.

22. During the business cycle, a recession occurs:
   A. At the peak of the business cycle.
   B. At the trough of a business cycle.
   C. In between the peak and the trough.
   D. In between the trough and the peak.

23. Classifying discouraged workers as unemployed would:
   A. Increase the unemployment rate.
   B. Decrease the unemployment rate.
   C. Not change the unemployment rate.
   D. The effect of this on the unemployment rate cannot be determined.
24. If you are looking for an indication of how the prices of the widest number of goods have changed, you should look at the:
   A. Price level.
   B. CPI.
   C. GDP Deflator.
   D. PPI.

25. If real GDP decreased from 1996 to 1997, then:
   A. Only prices decreased from 1996 to 1997.
   B. Output decreased from 1996 to 1997.
   C. Output and prices both must have decreased from 1996 to 1997.
   D. None of the above.

26. The reason economists include only the value of final goods and services when they calculate GDP is that intermediate goods:
   A. Do not create value added.
   B. Do not add to economic welfare.
   C. Have no social value.
   D. Would be double-counted otherwise.

27. The Commission on Health Care Reform that was chaired by Hillary Clinton (when she was first-lady) considered controlling the prices charged by pharmaceutical companies for drugs. If this policy were enacted, it would be an example of:
   A. Incomes policy.
   B. Monetary policy.
   C. Fiscal policy.
   D. Supply-side policy.

Short Answer Questions Are On the Next Page!
Short Answer (19 points total). A full credit answer can fit in the space provided under each question. If you need more space, please use the back of the page and make it clear that your answer is “continued on back of page.” In order to receive full credit, you must show any formulas that you use, and how you calculated your final answer!

1. (6 points) Using the following information, calculate the labor force participation rate, and the unemployment rate.
   Number Employed 45,000
   Number Unemployed 5,000
   Number Not in the Labor Force 30,000

2. (13 points total). You have decided to calculate a Romantic Valentine’s Day Price Index. Your market basket includes 1 romantic card, 12 gourmet chocolates, and 3 glasses of wine. You’ve checked the prices last year and this year, and have gathered the following information:

<table>
<thead>
<tr>
<th></th>
<th>Price (per unit) in 2001</th>
<th>Price (per unit) in 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romantic Card</td>
<td>$3.00</td>
<td>$2.00</td>
</tr>
<tr>
<td>Gourmet Chocolate</td>
<td>$2.00</td>
<td>$2.25</td>
</tr>
<tr>
<td>Glass of Wine</td>
<td>$4.00</td>
<td>$5.00</td>
</tr>
</tbody>
</table>

A. (10 points) Using 2001 as your base year, calculate the Romantic Valentine’s Day Price Index for 2001 and 2002. (Round your final answer to the nearest whole number)

B. (3 points) Calculate the inflation rate between 2001 and 2002.