Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

ECON 201—Montgomery College

**Exam 1**

* There are 110 possible points on this exam. The test is out of 100.
* You have one class period to complete this exam, but you should be able to complete it in less than that
* Please turn off all cell phones and other electronic equipment.
* You are allowed a calculator for the exam. This calculator cannot be capable of storing equations. This calculator cannot double as a cell phone.
* Be sure to read all instructions and questions carefully.
* Remember to show all your work.
* Recall basic logic. “Water is wet” is a true statement. “Water is wet and leopards have stripes” is a false statement.
* *Please print clearly and neatly.*

**Part I: Matching.** *Write the letter from the column on the right which best matches each word or phrase in the column on the left. You will not use all the options on the right and you cannot use the same option more than once.*

2 points each.

|  |  |
| --- | --- |
| 1. \_\_\_ Capital 2. \_\_\_ Diminishing marginal utility 3. \_\_\_ Final goods 4. \_\_\_ Intermediary goods 5. \_\_\_ Margin 6. \_\_\_ Marginal cost 7. \_\_\_ Opportunity cost 8. \_\_\_ Rationality 9. \_\_\_Scarcity 10. \_\_\_ Total cost | 1. What you must give up 2. When you proceed if the benefits exceed the costs 3. Why demand slopes down 4. Change in total 5. Required for there to be a market 6. The loss because of an additional action 7. The loss because of all the actions/items 8. The gain from an additional action/item 9. Assumption of human behavior 10. Example: Air 11. Example: Timber 12. Example: Bulldozer 13. Example: Candy |

**Part II: Multiple Choice.** *Circle the letter that corresponds to the best answer.*

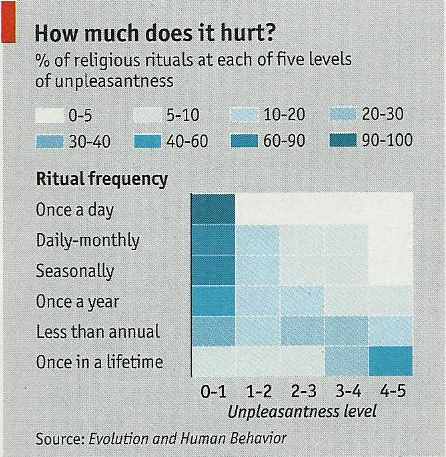
3 points each.

1. Suppose a country’s GDP in 2013 is $40 billion and in 2014 it grows to $60 billion. What is the growth rate of that country’s GDP?
2. 20%
3. 33%
4. 50%
5. 200%
6. None of the above
7. Which of the follow is ***not***included when calculating GDP using the income approach?
   1. Imports
   2. Interest
   3. Wages
   4. B & C
   5. None of the above
8. Which of the following is/are ***not*** included in the U.S. GDP but should be?
   1. The pollution a factory dumps into a river.
   2. The sale of a used car in the extralegal market.
   3. A microchip made in the U.S.
   4. A & B
   5. None of the above
9. Which of the following is true?
   1. C+I+G+NX = wages+interest+rent
   2. The longer you are unemployed, the harder it is to find a job.
   3. Men are more likely to be unemployed than women.
   4. B & C
   5. All of the above
10. Which concept explains how it’s possible for there to be many jobs added and, at the same time, unemployment rate increases?
11. Changes in the marginal benefit of working
12. Changes in the cyclical unemployment rate
13. Changes in wage growth
14. Changes in the adult population
15. None of the above
16. Which of the following is an inferior good?
    1. Well-written books about getting out of debt
    2. A very rough and dangerous trip to outer space
    3. Imported chocolate
    4. A & B
    5. None of the above
17. Which of the following individuals are ***clearly*** ***not*** rational?
    1. A mother giving her child a toy after he throws a temper tantrum.
    2. A young woman eating a cheeseburger.
    3. A wealthy couple buying a used car without closely inspecting it.
    4. All of the above.
    5. None of the above.
18. Consider this quote from Nobel Laureate F.A. Hayek:

If we were to apply the unmodified, uncurbed, rules of the micro-cosmos (i.e. of the small band or troop, or of, say, our families) to the macro-cosmos (our wider civilisation), as our instincts and sentimental yearnings often make us wish to do, *we would destroy it*. Yet if we were always to apply the rules of the extended order to our more intimate groupings, *we would crush them*. So we must learn to live in two sorts of world at once.

—F. A. Hayek, *The Fatal Conceit* (1988) [Original Emphasis]

What are these “two sorts of world” Hayek is referring to?

1. The Law of Demand versus the Law of Supply
2. Command versus market systems
3. What you do versus what you give up
4. Wealthy versus poor countries
5. None of the above
6. This graph illustrates the work of psychologists Harvey Whitehouse and Quentin Atkinson, as published in the April 23-29 2011 issue of *The Economist*. The “unpleasantness” of religious rituals (0 is low, 5 is high) is along the x-axis. How often the religion requires the ritual to be performed is along the y-axis. What economic concept does this diagram represent?
7. Opportunity cost
8. Consumer surplus
9. A demand curve
10. A & C
11. None of the above
12. In 2011, the U.S. Senate voted to end ethanol subsidies. If the bill passed, what happens in the market for corn? (Ethanol is made from corn.)
13. The demand curve will shift, causing the price of corn to rise.
14. The supply curve will shift, causing the price of corn to rise.
15. The supply curve will shift, causing the price of corn to fall.
16. B & C
17. None of the above
18. What barriers to efficiency does a command economic system face?
    1. Decision-makers don’t understand how capitalism works
    2. Decision-makers don’t know what each part of the economy needs
    3. Decision-makers don’t care what’s the most efficient use of resources
    4. B & C
    5. None of the above
19. The demand for shoes would shift to the right if:
20. A shoe factory was destroyed.
21. Tennis became more popular.
22. Gasoline prices continued to climb.
23. B & C
24. None of the above.
25. Which of the following is/are ***not*** capital?
    1. A video game
    2. A delivery van
    3. Electricity
    4. A & C
    5. None of the above
26. Describe state capitalism.
    1. Prices are determined by the state. Major companies are owned mostly by individuals but the companies are subject to government regulation.
    2. Prices are determined by the market. Major companies are owned by individuals and these individuals often work with the government to construct business-friendly (but not market-friendly) regulations. Competition is restricted.
    3. Prices are determined by the state. Major companies are owned mostly by the government. There is a great deal of government regulation.
    4. Prices are determined by the market. Major companies are owned mostly by the government and, therefore, little formal government regulation.
    5. None of the above

**Part III: Short Answer.** *Answer the following.*

12 points each.

1. Using the provided diagrams, illustrate the effects of the following (4 points each). Remember: do ***not*** shift more than one curve.
2. The local roofing market after a hurricane hits a city.
3. The market for computers after the microchip was invented.
4. The market for bread after the price of pastrami falls.
5. The market for bread after the price of bagels fall.

D

C

B

A

S

D

D

D

D

S

S

S

1. The vast majority of the time, capitalism encourages people to use resources efficiently. We discussed related ideas required to make this model of private ownership work so efficiently. Describe these requirements and explain why each is so important for encouraging people to use resources efficiently.

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1. Use the hypothetical information below to calculate the GDP growth rate from 2013 to 2014. Remember to show all your work. Round your answer to the nearest two decimal places, if necessary.

|  |  |  |
| --- | --- | --- |
| **Item** | **In Billions for Dollar ($) Amounts** | |
| **2013** | **2014** |
| Total Consumption | $90 | $111 |
| Total Interest Earned | $15 | $21 |
| Total Investment | $31 | $27 |
| Total Imports | $50 | $60 |
| Total Profit | $20 | $46 |
| Total Exports | $42 | $48 |
| Total Government Spending | $47 | $50 |

1. Using the hypothetical data below, calculate the unemployment rate, the natural rate of unemployment, and the labor force participation rate. Remember to show all your work. Round your answers to the nearest two decimal places, if necessary.

|  |  |
| --- | --- |
|  | *Population (millions)* |
| *Employed Full Time* | 110 |
| *Employed Part Time* | 40 |
| *Frictional Unemployed* | 30 |
| *Discouraged Workers* | 20 |
| *Structural Unemployed* | 10 |
| *Cyclical Unemployed* | 10 |
| *Adult Population[[1]](#footnote-1)* | 300 |
| *Total Population* | 500 |

1. Civilian and noninstitutionalized [↑](#footnote-ref-1)