

Name: _____
ECON 201—Montgomery College
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EXAM 2

- 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. ___ Core inflation | A. Excludes food |
| 2. ___ Cyclical unemployment | B. Excludes washing your own dishes |
| 3. ___ Discouraged workers | C. GDP doesn't include this, but it should |
| 4. ___ New consumer durables | D. GDP doesn't include this, and it shouldn't |
| 5. ___ Gross Domestic Product | E. GDP includes this, as it should |
| 6. ___ Toilet paper | F. GDP includes this, but it shouldn't |
| 7. ___ Transfer payments ¹ | G. Not in the labor force |
| | H. Not a part of the natural rate of unemployment but in the labor force |
| | Sales of this aren't strongly harmed during a recession |

Part II: Multiple Choice. Choose the best answer to the following.

4 points each.

8. We discussed many gaps, or problems, with how GDP is calculated. Which of the following is **not** such a gap?
 - a. It doesn't include any steel sold to a local car company.
 - b. It doesn't include cooking your own dinner.
 - c. It doesn't include cooking meth and the creation of other illegal substances.
 - d. B & C
 - e. None of the above

9. Which of the following goods is/are **never directly** counted as a part of GDP?
 - a. Computer games
 - b. Used bicycles
 - c. Airplane engines
 - d. A & C
 - e. B & C

10. Suppose the government prints \$10 billion in new money which people immediately put in their savings account. What happens to M1 and M2?
 - a. Both M1 and M2 increase by \$5 billion
 - b. M1 stays the same and M2 increases by \$10 billion
 - c. M2 stays the same and M1 increases by \$10 billion
 - d. Both M1 and M2 increase by \$10 billion
 - e. None of the above

¹ As in, when the government gives someone money. Examples include unemployment insurance, welfare, and Social Security.

11. Which of the following would illustrate the fundamental problem of a CPI which only examines the price of various clothes?
- If the price of televisions increased, there would be no inflation.
 - An increase in the price of fabric would register as inflation.
 - Both A & B are equally problematic.
 - There is nothing wrong with such a CPI.
 - There is something wrong, but none of them are listed here.
12. In *The Economic Organization of a P.O.W. Camp*, the prisoners switched from a cigarette currency to a paper currency. What was the new currency backed by?
- Cigarettes
 - German currency
 - Alcohol
 - Food
 - Nothing
13. Why did they adopt a paper currency?
- To help keep prices stable
 - To discourage borrowing
 - To ensure everyone had money
 - B & C
 - None of the above
14. About what is the size of the U.S. economy?
- \$19 billion
 - \$190 billion
 - \$1.9 trillion
 - \$19 trillion
 - \$190 trillion
15. Russia is dangerously close to entering a recession. If Russia enters a recession, which of the following goods would be hit particularly hard?
- Soap
 - Carrots
 - Plates
 - A & B
 - None of the above
16. Which of the following is **not** a function of money?
- Always used in every exchange
 - Prices of the same good should be the same everywhere
 - Doesn't lose value over time
 - B & C
 - None of the above

17. As we discussed, the labor force participation rate for women is substantially higher than it was 60 years ago. Which of the following is *not* a possible reason for this change?
- a. The decline of sexism in the workplace
 - b. The economy's greater emphasis on professional services
 - c. The invention of birth control
 - d. A & C
 - e. None of the above
18. According to the quantity theory of money, which of the following is true?
- a. Increasing the money supply (M) *always* leads to inflation.
 - b. The *only* way to get inflation is to increase the money supply (M).
 - c. Increasing real GDP *increases* the price level, all other things being equal.
 - d. Increasing real GDP *decreases* the price level, all other things being equal.
 - e. None of the above
19. Which of the following statements is/are true?
- a. It is possible for the number of net new jobs created to be unusually high and, at the same time, for the unemployment rate to rise.
 - b. Unexpected inflation hurts lenders because makes it more likely people will not be able to pay back their loans.
 - c. All the ways people in a country spend money equals all the ways people in that country make money.
 - d. A & C
 - e. All of the above are true

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

16 points each.

20. We discussed several reasons why the labor force participation rate changes over time. Briefly describe two of these reasons.

1) _____

2) _____

21. Use the hypothetical information below to calculate the *real* 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 the Dollar (\$) Amounts	
	2014	2015
Total Consumption	\$77	\$118
Total Exports	\$42	\$62
Total Wages	\$86	\$99
Total Interest Earned	\$16	\$29
Total Investment	\$31	\$26
Total Imports	\$57	\$115
Total Government Spending	\$37	\$52
CPI	100	107

22. 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.

	<i>Population (thousands)</i>
<i>Employed Full Time</i>	350
<i>Employed Part Time</i>	200
<i>Frictional Unemployed</i>	22
<i>Discouraged Workers</i>	15
<i>Structural Unemployed</i>	8
<i>Cyclical Unemployed</i>	20
<i>Adult Population²</i>	750
<i>Total Population</i>	900

² Civilian and noninstitutionalized