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ECON 201—Montgomery College  
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## EXAM 2

### Practice Exam A

- There are 110 possible points on this exam. The test is out of 100.
- You have one class session 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.
- Try all questions! You get zero points for questions that are not attempted.
- *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. ___ Deficit           | A. Adds to total debt  |
| 2. ___ Final             | B. Example: paper towels   |
| 3. ___ Intermediary good | C. Example: timber   |
| 4. ___ Market value      | D. Money must be portable/divisible  |
| 5. ___ Produced          | E. Money must be uniform   |
| 6. ___ Store of value    | F. Money cannot rot or decay   |
| 7. ___ Unit of account   | G. Part of GDP's definition which captures quality                           |
|                          | H. Part of GDP's definition which excludes used goods and services           |
|                          | I. Part of GDP's definition which prevents double counting a good or service |

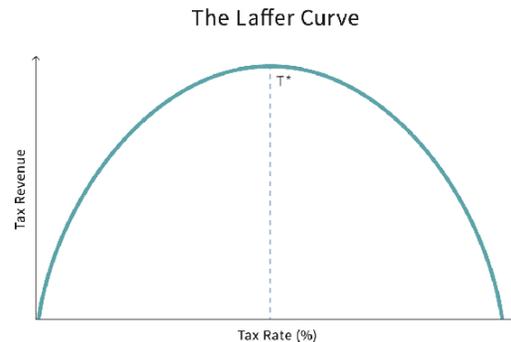
**Part II: Multiple Choice.** Circle the best answer to the following.

4 points each.

8. 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?
  - a. 20%
  - b. 33%
  - c. 50%
  - d. 200%
  - e. None of the above
  
9. We discussed many reasons for why economic growth occurs. Which of the following was one of the reasons?
  - a. Availability of education
  - b. Rule of law
  - c. Lots of capital and equipment
  - d. B & C
  - e. None of the above
  
10. In *The Economic Organization of a P.O.W. Camp*, describe the cigarette as it functioned as a currency.
  - a. The price level was very stable, though sometimes it was high.
  - b. The price level was very unstable as supply and demand of cigarettes greatly fluctuated.
  - c. Because of Gresham's law, the cigarette currency wasn't reliable.
  - d. Because everyone got the same bundle goods, the cigarette currency was rarely used.

- e. Because German officers kept taking cigarettes for themselves, the currency was very hard to use.

11. The Laffer Curve depicts the relationship between the tax rate and the tax revenue as an inverted-U shape (with the far right-handed side being 100%). While the exact peak of the curve is up for debate, it should not be surprising that, sometimes, increasing tax rates would cause tax revenues to fall. Why?



- a. Because of the progressive tax system, higher tax rates can cause the amount you owe in taxes to get lower.
  - b. Because a higher tax rate results in misallocation of resources.
  - c. Because if you increase the tax rate, you increase the incentive to avoid taxes.
  - d. A & C
  - e. None of the above
12. Which of the following is true?
- a.  $C+I+G+NX = \text{wages}+\text{interest}+\text{rent}$
  - b. The longer you are unemployed, the harder it is to find a job.
  - c. Men are more likely to be unemployed than women.
  - d. B & C
  - e. All of the above
13. In theory, poor countries should catch up with wealthy countries. Why?
- a. Because poor countries have relatively little capital
  - b. Because poor countries will trade more with wealthy countries
  - c. Because wealthy countries tend to have stable governments
  - d. A & C
  - e. None of the above
14. Suppose there's an expected increase in inflation. Who does this increase in inflation hurt?
- a. Borrowers
  - b. Savers
  - c. Creditors
  - d. B & C
  - e. No one
15. Suppose the velocity of money increased and GDP was the same. What could happen?

- a. The supply of money falls
- b. Inflation
- c. Deflation
- d. A and/or B
- e. None of the above

16. Gresham's Law occurs when what happens?

- a. When consumers buy more as the price falls.
- b. When a currency becomes debased (reduce its inherent value).
- c. When the government prints a lot of money.
- d. B & C
- e. None of the above

17. What is the Consumer Price Index?

- a. A basket of similar goods which is used to calculate inflation
- b. A basket of a variety of goods which is used to calculate inflation
- c. A basket of a variety of goods which is used to calculate Gross Domestic Product
- d. A basket of similar goods which is used to calculate Gross Domestic Product
- e. None of the above

18. GDP has many things it should include but it doesn't. Which of the following items are explicitly excluded from U.S. GDP but shouldn't be?

- a. Sales of homes previously lived in.
- b. Water sold to Coca-Cola bottling plants.
- c. Industrial waste a spark-plug factory creates, which it dumps in a river.
- d. The combined market prices of all French wine Americans bought.
- e. More than one of the above, but not all of them.

19. Suppose France and England have similar economies, save inflation. Suppose France has 10% inflation and England has 6% inflation. If both levels of inflation are well established, compare these countries' nominal and real interest rates.

- a. France's nominal rate and real rate should be higher.
- b. England's nominal rate and real rate should be higher.
- c. France's nominal rate should be higher and the real rate should be the same.
- d. England's nominal rate should be higher than the real rate should be the same.
- e. None of the above





22. Use the hypothetical information below to calculate the nominal GDP growth rate from 2013 to 2014. Remember to show all your work. Round your answer to the nearest two decimal places, if necessary. Finally, there is something fundamentally wrong about this set of data. Indicate what is wrong in the lines below. (HINT: Remember there are two ways to calculate GDP.)

Item	In Billions for Dollar (\$)	
	2013	2014
Total Consumption	\$18	\$24
Total Interest Earned	\$6	\$7
Total Investment	\$1	\$3
Total Imports	\$4	\$11
Total Profit	\$12	\$20
Total Exports	\$7	\$9
Total Rent	\$11	\$9
Total Government Spending	\$6	\$10

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