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ECON 201—Montgomery College
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EXAM 2

Practice Exam B

- 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. ___ Cyclical unemployment | A. Amount determined by past laws and current conditions in the country. |
| 2. ___ Discouraged workers | B. Excludes washing your own dishes |
| 3. ___ Discretionary spending | C. GDP doesn't include this, but it should |
| 4. ___ Gross Domestic Product | D. GDP doesn't include this, and it shouldn't |
| 5. ___ New consumer durables | E. GDP includes this, and it should |
| 6. ___ Mandatory spending | 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 |
| | I. Government agencies getting money for specific purposes. |

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

4 points each.

8. Which of the following goods is/are **never directly** counted as a part of GDP?
- Computer games
 - Used bicycles
 - Airplane engines
 - A & C
 - B & C
9. The theory of convergence relies on what idea?
- Diminishing marginal productivity of capital
 - Diminishing marginal productivity of education
 - Diminishing marginal utility of education
 - B & C
 - None of the above
10. In *The Economic Organization of a P.O.W. Camp*, what kind of money were the currencies discussed in the reading?
- Cigarettes: commodity currency; German marks: fiat currency.
 - Cigarettes: commodity currency; bully marks: fiat currency.
 - Cigarettes: commodity currency; bully marks: representative currency.
 - Cigarettes: representative currency; bully marks: fiat currency.
 - Cigarettes: representative currency; bully marks: representative currency.

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

11. Can a progressive tax system cause a pay raise to result in less after-tax income?
- Yes, because if someone is just under the cutoff for one bracket and then a raise puts them in a higher tax bracket, they pay a larger share of their income in taxes and the income after taxes actually falls.
 - Yes, discourages them from working, thus they get a lower salary.
 - No, because these are marginal tax rates.
 - No, because tax rates are the same regardless of how much people make.
 - Uncertain, because it depends on what the various tax rates actually are.
12. We discussed many gaps, or problems, with how GDP is calculated. Which of the following is *not* such a gap?
- It doesn't include any steel sold to a local car company.
 - It doesn't include cooking your own dinner.
 - It doesn't include cooking meth and the creation of other illegal substances.
 - B & C
 - None of the above
13. 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.
14. Which of the following is a zero-sum game?
- Soccer
 - War
 - Economic growth
 - A & B
 - All of the above
15. 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
16. According to the quantity theory of money, which of the following is true?
- Increasing the money supply (M) *always* leads to inflation.
 - The *only* way to get inflation is to increase the money supply (M).
 - Increasing real GDP *increases* the price level, all other things being equal.
 - Increasing real GDP *decreases* the price level, all other things being equal.
 - None of the above

17. When the government spends more money than it brings in:
- It's called a deficit.
 - It's called a debt.
 - It issues bonds.
 - A & C
 - All of the above
18. 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?
- The decline of sexism in the workplace
 - The economy's greater emphasis on professional services
 - The invention of birth control
 - A & C
 - None of the above
19. Which of the following statements is/are true?
- 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.
 - Unexpected inflation hurts lenders because makes it more likely people will not be able to pay back their loans.
 - All the ways people in a country spend money equals all the ways people in that country make money.
 - A & C
 - 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. 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

22. We discussed three functions of money. List *all three* of those functions and indicate what's needed of the currency to make each of the functions you indicated work.

a. _____.

b. _____.

c. _____.
