

DIRECTIONS: This exam has two (2) sections; be sure to follow the directions for each section. Allocate your time carefully.

1. Short Essay Questions (15 points each)

DIRECTIONS: Every student must do a **one (1)** short answer question. If a question has multiple parts, indicate exactly where you answer each part.

1. Define economic growth. What are the long-run determinants of growth in the neoclassical growth model? What are the predicted short-run and long-run effects of an increase in the saving rate in this model? (Illustrate graphically and discuss in full detail. Comment: every graph deserves a full and detailed explanation.) How supportive are the data of these predictions?
2. Consider table 1. Panel 1 provides data on (constant quality) output for a 3 good economy. Copy Panel 2 and Panel 3 into your bluebook. First, *show in detail* how to find the missing numbers. (Show your work!) Provide a *detailed* explanation of your computations. Then fill in the numbers (in your bluebook). Produce complete versions of the panels, paying attention to the units. (For ease of computation, annual growth rates are absurdly large.) Finally, *discuss* the completed table. Explain what lessons emerge from this table and why this can be important for public policy. Be detailed and specific.

Table 1: Alternative Computations of Real GDP Growth

Panel 1: Production and Prices (Ag and Tech and Entertainment Goods)						
	Good 1		Good 2		Good 3	
Year	Qty	Price	Qty	Price	Qty	Price
2005	200	1.00	10	60.00	100	1.00
2006	220	2.00	20	30.00	100	1.00
2007	240	3.00	30	20.00	100	1.00
2008	260	4.00	60	10.00	100	1.00

Panel 2: Real GDPs (Thousands of Dollars)				
Q Year \ P Year:	2005	2006	2007	2008
2005	—	—	—	—
2006	—	—	—	—
2007	—	—	—	—
2008	—	—	—	—

Panel 3: Measured Real Growth (Percentage)					
	Fixed-Base-Year Measures				Simplified Measure (Chain-weighted)
Period \ Prices:	2005	2006	2007	2008	
2005 – 2006	—	—	—	—	—
2006 – 2007	—	—	—	—	—
2007 – 2008	—	—	—	—	—
2005 – 2008	—	—	—	—	—

2. Multiple Choice Questions (1 point each)

DIRECTIONS: Answer all multiple choice questions. Pick a single answer for each question: there is one best answer.

1. When discussing the demand for labor when only labor is a variable input, our first production model characterized the representative firm's output as
 - (a) increasing as the labor input increases
 - (b) increasing in proportion to an increased labor input
 - (c) increasing less than proportionately with an increased labor input
 - (d) a. and b.
 - (e) *a. and c.
2. Which of the following will be considered as unemployed by the Bureau of Labor Statistics?
 - (a) a college student who has taken time off from the labor force in order to complete studies
 - (b) a college student who pays for tuition by working part time on campus
 - (c) *a new college graduate who currently not working but actively seeking employment
 - (d) none of the above
3. Suppose you deposit \$1000 at a continuously compounded annual rate of 7% per year. Approximately how many years will it take for your deposit to grow to \$2000?
 - (a) 1
 - (b) 5
 - (c) *10
 - (d) 15
 - (e) 20
4. The real wage can be measured as
 - (a) dollars per man hour.
 - (b) dollars per unit of output.
 - (c) *units of output per man hour.
 - (d) man hours per unit of output.
 - (e) None of the above.
5. In the production model that we have been studying, which of the following affect the level of production?
 - (a) change the labor input
 - (b) change capital input
 - (c) technological change
 - (d) a. and b.
 - (e) *all of the above
6. In current dollars, according to the 2007 Economic Report of the President, annual federal outlays in the U.S. total around
 - (a) \$2.7 billion.
 - (b) \$10.7 billion.

- (c) *\$2.7 trillion
 - (d) \$6.7 trillion.
 - (e) \$10.7 trillion.
7. In current dollars, according to the 2007 Economic Report of the President, total annual federal tax receipts in the U.S. total around
- (a) \$2.4 billion.
 - (b) \$1.4 trillion.
 - (c) *\$2.4 trillion
 - (d) \$6.4 trillion.
 - (e) \$10.4 trillion.
8. Which of the following are positively correlated with the unemployment rate?
- (a) violent crime.
 - (b) poverty.
 - (c) homicides of 18–24-year-olds.
 - (d) suicide.
 - (e) *all of the above.
9. Over the last 100 years in the US, which of the following has had the largest cumulative effect on the material standard of living of US residents?
- (a) *growth in real per capita GDP
 - (b) inflation
 - (c) unemployment
 - (d) changes in the distribution of income
 - (e) pollution
10. In an open economy, if total (private plus government) saving exceeds total investment expenditure, then
- (a) the current account is in deficit.
 - (b) *the current account is in surplus.
 - (c) the government must be borrowing abroad
 - (d) GDP is bigger than the sum of total (private plus government) consumption, investment and net exports
 - (e) none of the above
11. In our model of the labor market, a rightward shift of the labor supply curve will
- (a) decrease the employment level and increase the real wage
 - (b) *decrease the real wage and increase the employment level
 - (c) decrease both the employment level and the real wage
 - (d) increase both the employment level and the real wage
 - (e) none of the above
12. According to The Economic Report of the President (2001), the US household saving rate fell below zero in 2000. The ERP says we should conclude that
- (a) households saving is dangerously low.

- (b) the lack of household saving will depress US growth.
 - (c) government saving is much more important.
 - (d) business saving is much more important.
 - (e) *the national income accounts neglect household saving in the form of capital gains.
13. According to The Economic Report of the President (2007), the US personal saving rate fell to -1% in 2006, its lowest annual level in the postwar era. The ERP says we should conclude that
- (a) households saving is dangerously low.
 - (b) the lack of household saving will depress US growth.
 - (c) government saving is much more important.
 - (d) business saving is much more important.
 - (e) *the national income accounts neglect household saving in the form of capital gains.
14. The Economic Report of the President (2001) estimated the current account deficit for 2000 at \$360 B. It describes this situation as
- (a) *benignly reflect strengths of the US economy.
 - (b) a crisis in the making.
 - (c) due to very weak export growth.
 - (d) a consequence of US fiscal profligacy.
 - (e) none of the above.
15. The Economic Report of the President (2007) estimated the current account deficit for 2006 at \$318 B. It describes this situation as
- (a) *benignly reflect strengths of the US economy.
 - (b) a crisis in the making.
 - (c) due to very weak export growth.
 - (d) a consequence of US fiscal profligacy.
 - (e) none of the above.
16. In the U.S., the labor income as a proportion of GDP averages roughly
- (a) 1/3
 - (b) *2/3
 - (c) 3/4
 - (d) 4/5
 - (e) 5/6
17. Annual gross domestic product in the U.S. is currently about
- (a) \$4 billion.
 - (b) \$14 billion
 - (c) \$4 trillion.
 - (d) *\$14 trillion.
 - (e) none of the above
18. The deepest postwar recession happened during which presidency?
- (a) Carter