Multiple Choice (90 points total - 3 points each)
Directions: Identify the letter of the choice that best completes the statement or answers the question. Fill in the circle on your scantron that corresponds to this letter. Hand in your scantron and this test.

1. The unemployment rate is equal to
   a. the number unemployed divided by the labor force.
   b. the number unemployed divided by the population.
   c. the number unemployed divided by the number employed.
   d. the labor force divided by the population.

2. Gross Domestic Product is the
   a. most comprehensive measure of prices the economy.
   b. total of goods and services desired by consumers.
   c. most comprehensive measure of total output in the United States.
   d. most accurate measure of the trade balance of the United States.

3. Which of the following is not an example of a macroeconomy?
   a. The Mankato economy.
   b. The Minnesota economy.
   c. The combined economies of Minnesota, North Dakota, South Dakota, Nebraska, and Iowa.
   d. The market for crude oil in the United States.

4. If you as a lender want an increase in purchasing power of 4 percent (assuming prices are held constant from today's perspective) and you set the nominal interest rate at 9 percent, then your
   a. expected rate of inflation is 9 percent.
   b. expected rate of inflation is 5 percent.
   c. real rate of interest is 2.25 percent.
   d. real rate of interest is 36 percent.

5. An increase in the amount of capital available in an economy will shift the economy's production function
   a. downward.
   b. rightward.
   c. upward.
   d. outward.

6. Compared to the 1947 to 1973 period, the period from 1973 to 1995 can be characterized as a period of
   a. faster real GDP growth.
   b. faster labor productivity growth.
   c. slower labor productivity growth.
   d. lower labor force growth.

7. Properly enforced property rights will usually cause
   a. lower levels of investment spending.
   b. lower levels of real interest rates.
   c. higher levels of investment spending.
   d. higher levels of real interest rates.
8. When you subtract the expected rate of inflation from the nominal rate of interest, you calculate the
   a. real interest rate.
   b. real inflation rate.
   c. expected rate of interest.
   d. expected rate of price increases.

9. The higher education wage premium in the United States represents a
   a. cost of higher education.
   b. decreasing return to higher education.
   c. a return to completing a college education.
   d. result of declining college attendance since 1973.

10. Richard loses his job at the railroad due to a downturn in general business conditions. He is experiencing
    a. structural unemployment.
    b. cyclical unemployment.
    c. seasonal unemployment.
    d. frictional unemployment.

11. In order to stimulate capital investment, the government could
   a. increase the inheritance tax.
   b. increase inflation.
   c. reduce the tax on corporate profits.
   d. increase the personal income tax.

12. Relative to 2001, the 2002 inflation rate stands at
    a. less than 2%.
    b. between 2% and 3%.
    c. between 3% and 4%.
    d. above 4%.

13. The current productivity speed-up in the United States began in the
    a. mid 1970s.
    b. mid 1980s.
    c. mid 1990s.

14. Nominal GDP is
    a. also called real GDP.
    b. a more accurate measure than real GDP.
    c. the same as real GNP.
    d. GDP as if prices were held constant.

15. The profitability of an investment project will decrease if
    a. tax rates decrease.
    b. real interest rates increase.
    c. real interest rates decrease.
    d. business tax deductions increase.

16. Suppose that after a particular loan has been paid off, neither the borrower nor the lender has lost purchasing
    power. Therefore, it must be true that actual inflation was
    a. greater than expected inflation.
    b. equal to expected inflation.
    c. less than expected inflation.
    d. greater than the nominal rate of interest.
17. The base year is 1996. What is the value of the price index in 1996?
   a. 200
   b. 100
   c. 0
   d. It cannot be determined with the given information.

18. If aggregate demand shifts inward and aggregate supply is held constant, the economy will experience
   a. decreases in the unemployment rate.
   b. recession.
   c. stagflation.
   d. inflation.
   e. higher interest rates.

19. In describing an overall economy, economists combine various goods and services into a convenient grouping
   is called a(n)
   a. conglomeration.
   b. blending.
   c. congregation.
   d. agglomeration.
   e. aggregation.

20. An increase in the capital stock has the same effect on the production function as an increase in
   a. labor.
   b. output.
   c. potential GDP.
   d. technology.

21. For given amounts of labor and capital used in an economy, if technology is more primitive, labor
   productivity will be
   a. higher.
   b. lower.
   c. unchanged.
   d. the same as real GDP.

22. Which of the following is not true about GDP?
   a. It is a measure of national output.
   b. It is a measure of gross national income.
   c. It is a perfect measure of economic well-being.
   d. It can be measured in constant and current prices.

23. Persons who have given up looking for work are classified as ________ in official labor force statistics.
   a. unemployed.
   b. discouraged workers.
   c. being in the labor force.
   d. temporarily unemployed.

24. An improvement in technology implemented in businesses would increase
   a. the labor force.
   b. costs of production.
   c. labor productivity.
   d. population growth.
25. The 1982-83 US recession was largely a result of the monetary authorities' decision to take actions that increased interest rates. Why did the monetary authorities take this action?
   a. To combat high inflation.
   b. To combat low inflation.
   c. To help Republicans defeat Democrats in the 1982 congressional elections.
   d. To lower oil prices.

26. To fight recession, the government may enact policies that:
   a. decrease aggregate demand, which will also lead to lower unemployment rates.
   b. increase aggregate demand, which will also lead to higher price levels.
   c. increase aggregate demand, which will also lead to lower price levels.
   d. decrease aggregate demand, which will also lead to higher unemployment rates.

27. An economy could produce above its potential GDP by
   a. reducing the size of the labor force.
   b. increasing the price of final goods and services.
   c. adding extra shifts of work, such as overtime.
   d. enacting trade barriers on goods imported from Sweden.

28. Human capital refers to
   a. worker education and workers' equipment.
   b. worker education and computers.
   c. workers' equipment and factories.
   d. worker education and worker training.

29. The U.S. government attempts to spur research and development activities through
   a. monetary policy.
   b. foreign policy.
   c. export subsidy policy.
   d. tax policy.

30. General Motors Corporation (a U.S.-based firm) produces a Saab vehicle in Sweden, and sells it in the United States. In which country's GDP is it included?
   a. Sweden and the United States
   b. The United States because it was sold there
   c. The United States because GM is a U.S. company
   d. Sweden because it was produced there
Short Answer (10 points)

Directions: Answer each question in the space provided below the question.

31. (6 points total) The following table presents CPI data gathered from the databases of the Economic and Policy Analysis Research Center at the University of Missouri:

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</table>

a. (2 points) Calculate the inflation rate between 1999 and 2000. Express your answer as a percent and round your answer to the nearest tenth of one percent.

b. (2 points) By how much did prices increase between 1990 and 2000? Express your answer as a percent and round your answer to the nearest tenth of one percent.

c. (2 points) According to data from the 2000 Consumer Expenditure Survey obtained from [http://www.bls.gov](http://www.bls.gov), the average “family” whose head of the household has a bachelor’s degree has total income of $64,000. This value is in nominal dollars. What is the real average income of these “families” in 1982 dollars? Round your answer to the nearest dollar.
32. (4 points total) The size of the Minnesota Labor Force in September of 2002 was 2,851,000 while the total level of unemployment in Minnesota was 114,300 in September of 2002.

a. (2 points) What was the unemployment rate in Minnesota in September of 2002? Express your answer as a percent and round your answer to the nearest tenth of one percent.

b. (2 point) What was the level of employment in Minnesota in September of 2002?
MULTIPLE CHOICE

1. A
2. C
3. D
4. B
5. C
6. C
7. C
8. A
9. C
10. B
11. C
12. A
13. C
14. D
15. B
16. B
17. B
18. B
19. E
20. D
21. B
22. C
23. B
24. C
25. A
26. B
27. C
28. D
29. D
30. D

31. a. 3.3%
   b. 31.7%
   c. $35,895

32. a. 4.0%
   b. 2,736,700