

Econ 102
Midterm 1
February 9, 2006

Part I: Multiple Choice: (26 Questions, 3 pts each=78 pts)
Select the best answer among the given choices

1. Please indicate which of the following statements are true

- I. In general, stocks are riskier than bonds, so bonds must pay a higher return
 - II. Government bonds are considered less risky than corporate bonds
 - III. Stocks and bonds are attractive financial instruments that pay fixed returns.
- a) I only
 - b) II only
 - c) III only
 - d) I and III only
 - e) II and III only

Use the following table to answer questions 2 and 3:

Year	Nominal GDP (in billions)	GDP Deflator (base year 1997)
2000	10,453	121
2001	11,115	124
2002	11,990	125

2. Inflation between 2000 and 2001 was approximately

- a) 2.5 percent
- b) 3.0 percent
- c) 3.8 percent
- d) 6.3 percent
- e) 8.2 percent

3. What was the approximate percentage change in real GDP between 2000 and 2002?

- a) 18.5 percent
- b) 14.7 percent
- c) 11.0 percent
- d) 7.0 percent
- e) 4.0 percent

4. Which of the following statements is true?

- a) The GDP deflator calculates inflation using the current production basket while the CPI uses a fixed production basket.
- b) The rate of change of the GDP deflator indicates real GDP growth because it is based on current production in the economy.
- c) Changes in nominal GDP are the same as changes in the CPI because both capture changes in the cost of living.
- d) The GDP deflator calculates inflation using the current production basket while the CPI uses a fixed consumption basket.
- e) The GDP deflator is in real terms while the CPI is in nominal terms.

For Questions 5 & 6, suppose the following events took place in Slovakia in Year 0.

- I. Congress passed a law exempting capital gains from taxation
- II. The average savings rate of the citizens of Slovakia temporarily increased by 1%
- III. Slovakian firms increased research and development efforts in response to a new government initiative
- IV. New unpopulated land was annexed from Poland, which increased the natural resource endowment of Slovakia

5. Which of the events above will most likely increase Slovakia's per capita GDP *level* in the long run?

- a) I and IV
- b) I, II and III
- c) IV only
- d) III and IV
- e) I, II, III and IV

6. Which of the events above will most likely increase Slovakia's per capita GDP *growth rate* in the long run?

- a) III and IV
- b) IV only
- c) I and III
- d) III only
- e) I, II, III and IV

For Questions 7 & 8 consider the following countries, their current GDP per capita figures, and growth rates as indicated. Assume that growth rates for all countries are constant:

Country	Current GDP per capita	Growth Rate per capita
Slovakia	\$7,000	X
Sweden	\$28,000	2.5%
United States	\$35,000	2%
Mongolia	\$3,000	4%

7. What would Slovakia's growth rate have to be in order for Slovaks to be approximately as well off as Swedes in 140 years?

- a) 2.6%
- b) 3.0%
- c) 3.5%
- d) 5.0%
- e) 10.0%

8. Assume that the growth rate for Slovakia is actually 3%, which country will eventually be the wealthiest (per capita)?

- a) Slovakia
- b) Sweden
- c) United State
- d) Mongolia
- e) Cannot tell from the information provided

9. Consider the closed economy loanable funds model presented in class: Suppose Congress passes a bill that expands investment tax credits for firms that invest in new equipment. Meanwhile, they adjust government spending so as to leave the government's budget unchanged. Which of the following will occur?

- a) An increase in investment and a decrease in the interest rate
- b) An increase in private savings and a decrease in the interest rate
- c) A decrease in investment, public savings and the interest rate
- d) An increase in investment, public savings and the interest rate
- e) An increase in investment, national savings and the interest rate