I. MULTIPLE CHOICE (4 points each)

1. Daniel decides to spend an hour playing basketball rather than working at $6 per hour. His tradeoff is
   a. nothing, because he enjoys playing basketball more than working.
   b. the increase in skill he obtains from playing basketball for that hour.
   c. the $6 he could have earned.
   d. nothing, because he spent $6 for admission into the sports complex to play basketball.

2. Efficiency means that
   a. society is getting the most it can from its scarce resources.
   b. society is conserving resources in order to save them for the future.
   c. society’s goods and services are distributed fairly among society’s members.
   d. society has lessened its dependence on foreign energy sources.

3. In economics, the cost of something is
   a. the out-of-pocket expense of obtaining it.
   b. what you give up to get it.
   c. always measured in units of time.
   d. always higher than people think.

4. In a market economy, economic activity is guided by
   a. the government.
   b. prices.
   c. central planners.
   d. corporations.
5. Causes of market failure include
   a. externalities and foreign competition.
   b. market power and incorrect forecasts of consumer demand.
   c. externalities and market power.
   d. incorrect forecasts of consumer demand and foreign competition.

6. A circular-flow diagram is
   a. a model that illustrates cost-benefit analysis.
   b. a model that explains how the economy is organized.
   c. a model that shows the flow of traffic in an economic region.
   d. a model that explains how banks circulate money in the economy.

7. In the circular-flow diagram shown, which arrow shows the flow of goods and services?
   a. A
   b. B
   c. C
   d. D

8. In the circular-flow diagram shown, which arrow shows the flow of income payments?
   a. A
   b. B
   c. C
   d. D
9. The production possibilities frontier is
   a. a map which shows the frontier beyond which agriculture is unprofitable.
   b. a map which shows areas of the world in which capitalist production is now possible.
   c. a graph that shows the various combinations of output the economy can possibly produce given the available resources and technology.
   d. a graph which shows the various combinations of resources that can be used to produce a given level of output.

10. An economic outcome is said to be efficient if
    a. the economy is using all of the resources it has available.
    b. the economy is conserving on resources and not using all it has.
    c. the economy is getting all it can from the scarce resources it has available.
    d. the economy is producing only the goods and services consumers need the most.

11. On the production possibilities frontier shown, which point or points are possible for this economy to produce?
    a. A, B, C, D
    b. A, B, C, F
    c. A, B, C, D, E, F
    d. D

12. A competitive market is
    a. a market in which there are many buyers and many sellers so that each has a negligible impact on price.
    b. a market where consumers cannot freely interact with sellers.
    c. a market where suppliers are under no government restrictions.
    d. a market with many buyers but few sellers.
13. A monopoly is  
   a. a market with few sellers.  
   b. a market with one seller.  
   c. a market with one buyer.  
   d. a market where the government sets the price.

14. Suppose GDP consists of wheat and rice, and in 2001, 20 bushels of wheat are sold at $4 per bushel, and 10 bushels of rice are sold at $2 per bushel. If the price of wheat was $1 per bushel and the price of rice was $2 per bushel in 2000, the base year,  
   a. nominal 2000 GDP is $100, real 2000 GDP is $40, and the GDP deflator is 40.  
   b. nominal 2000 GDP is $40, real 2000 GDP is $100, and the GDP deflator is 250.  
   c. nominal 2000 GDP is $100, real 2000 GDP is $40, and the GDP deflator is 250.  
   d. nominal 2000 GDP is $40, real 2000 GDP is $100, and the GDP deflator is 40.

15. Real GDP  
   a. evaluates current production at the prices that prevailed in some specific year in the past.  
   b. evaluates current production at current prices.  
   c. is not a valid measure of the economy’s performance, since prices actually change from year to year.  
   d. is a measure of the value of goods only, hence, it excludes the value of services.

16. If nominal GDP is $10 trillion and real GDP is $8 trillion, the GDP deflator is  
   a. .8  
   b. 1.25  
   c. 80  
   d. 125

17. Which of the goods and services produced in the economy are included as part of GDP?  
   a. all goods and services  
   b. all final goods and services bought and sold in legal markets  
   c. all final goods and services which are bought and sold in markets  
   d. all final goods and services bought and sold in legal markets plus the imputed value of some other legal goods and services that are not bought and sold in markets
18. Igor and Natalia have each been doing their own housework. Igor decides to hire Natalia to
do his housework, and in turn, Natalia hires Igor to do her housework. As a result of this
change,
   a. GDP falls.
   b. GDP rises.
   c. GDP is unaffected because housework is not included in GDP.
   d. GDP is unaffected because the same work is being performed in both cases.

19. Goods that go into inventory and are not sold during the current period
   a. are included in GDP as inventory investment.
   b. are intermediate goods until sold, hence, are not included in GDP.
   c. are included in GDP as consumption.
   d. are included in GDP as inventory investment, but not until the goods are sold.

20. The consumer price index is used to
    a. track changes in the level of wholesale prices in the economy.
    b. monitor changes in the cost of living.
    c. monitor changes in the level of real GDP.
    d. track changes in the stock market.
II. ESSAY QUESTION (20 points)

1. 

a. Complete the following table:

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>5132</td>
<td>5324</td>
<td>5507</td>
</tr>
<tr>
<td>Consumption</td>
<td>3820</td>
<td>4544</td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>819</td>
<td>850</td>
<td>773</td>
</tr>
<tr>
<td>Government Purchases</td>
<td>461</td>
<td></td>
<td>577</td>
</tr>
<tr>
<td>Net Exports</td>
<td>-57</td>
<td>-125</td>
<td>-387</td>
</tr>
</tbody>
</table>

b. What is the largest expenditure component of GDP?

c. What does it mean to say that net exports are negative?