

Answer Practice Exam 3

1. C
2. B
3. B
4. A
5. D
6. D
7. A
8. C
9. B
10. C
11. D
12. A
13. C
14. A
15. B
16. D
17. D
18. C
19. a) Yes – Investment (firms purchase inventory)
 b) Yes – Consumption (households purchase education)
 c) N –
20. We didn't cover this.
21. Overstate – discouraged workers; part-time workers who wish to be full-time workers.
22. a) increase investment in physical/human capital and R&D increases future econ growth
 b) increase population working on #hrs worked increase output and standard of living but decrease time for leisure and nonmarket activities
 c) increase safety, environment, can only be done at expense of econ growth
 d) tax cuts increase economic growth – but can redistribute take burden.
23. CPI – holds market basket constant; GDP deflator – ratio of nominal/real GDP – allows basket to vary. We use to a) target policy, b) index payments (such as social security), c) to translate nominal values to real values.
24. Use the following table showing the production of 500 Cheerios cereal to calculate the contribution to GDP using the VALUE-ADDED approach. Fill in the table (8 points) – value added and cost of materials

<i>Participants</i>	<i>Cost of Materials</i>	<i>Values of Sales</i>	<i>Value Added</i>
Farmer	\$ 0	\$ 100	100
Mill	100	\$ 300	200
Cereal Maker	300	\$ 650	350
Wholesaler	650	\$ 750	100
Grocery Store	750	\$ 1000	250

What is the contribution to GDP for the production of those Cheerios (2 points)?
Add all value added (100 + 200 + 350 + 100 + 250 = 1000)

25. Given the annual values of a given market basket of goods and services, compute the price index assuming the base year is year 3 (fill in the blanks on the table – 5 points).

<i>Year</i>	<i>Current Value of Market Basket</i>	<i>Price Index (base year 3)</i>
1	\$ 20,000	71.4
2	\$ 25,000	89.3
3	\$ 28,000	100
4	\$ 30,000	107.1
5	\$ 33,500	119.6
6	\$ 38,000	135.7

Determine the rate of inflation from the price index values above: (1 point each)

- a. From year 1 to year 2 _____ 25.1 _____ %
- b. From year 2 to year 3 _____ 12 _____ %
- c. From year 3 to year 4 _____ 7.1 _____ %
- d. From year 4 to year 5 _____ 11.7 _____ %
- e. From year 5 to year 6 _____ 13.5 _____ %