

2007 NATIONAL ECONOMICS CHALLENGE
NCEE/Goldman Sachs Foundation

Round II – Macroeconomics
Regional Competition, Adam Smith Division

Please select the one best answer.

1. Which plays the most important role in increasing the rate of growth in real GDP per capita over time?
 - A. Increases in labor productivity
 - B. Increases in the money supply
 - C. decreases in the level of inflation
 - D. increases in the real rate of interest
 - E. increases in the amount of labor per unit of capital

2. Consider a closed economy with the following values for 2006:

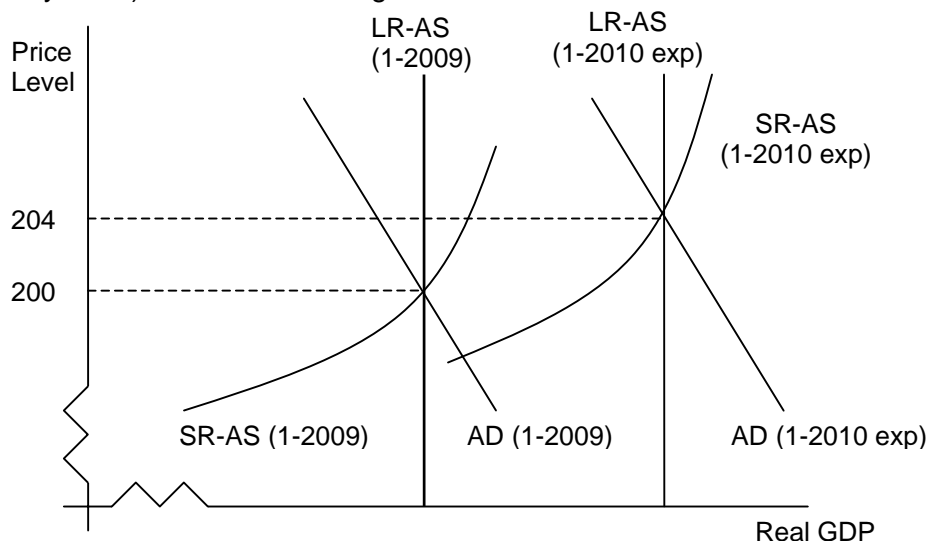
Investment:	\$4,000
Net domestic product:	\$13,700
Government purchases:	\$2,000
Transfer payments:	\$500
Consumption of fixed capital:	\$600
Indirect business taxes:	\$800

For this economy, what was consumption?
 - A. \$6,900
 - B. \$7,100
 - C. \$7,700
 - D. \$8,300
 - E. \$8,500

3. Which is true regarding calculating real GDP in the United States?
 - A. a family purchases a new house: consumption increases
 - B. a Canadian consumer stays in a luxury hotel in Minneapolis: consumption decreases
 - C. a firm sells a bicycle it produced the previous year out of its inventory: investment increases
 - D. the government increases its transfers to unemployed workers: government purchases don't change
 - E. a construction firm buys a newly produced stained glass window for the house it is building: investment increases

4. Which **best** completes this statement: "Endogenous growth theory extended upon most older theories of economic growth by allowing _____ to be determined by market factors within (as opposed to outside) of the model."
 - A. inflation
 - B. population
 - C. technology
 - D. interest rates
 - E. aggregate demand

5. Consider the following hypothetical “current” (January 2009 [1-2009]) and expected (January 2010) short-run and long-run AS curves and AD curves for the United States.



Given this *expectation* for economic conditions for January 2010 in January 2009, what would be the appropriate policy most economists would agree with, *ceteris paribus*?

- A. easier monetary policy
 B. no change in monetary policy
 C. tighter monetary policy
 D. price controls
 E. wage controls
6. Suppose that in the United States the number of people employed decreased from June to July. You work for the BLS and compute the new unemployment rate for July and find that it is lower than the unemployment rate was in June. What can you conclude?
- A. You made a mistake; the unemployment rate must equal 1 minus the employment rate.
 B. You made a mistake; the unemployment rate must be higher in July if the number of people employed decreased.
 C. This is possible; some people who were previously unemployed found work.
 D. This is possible; some people who lost jobs or were previously unemployed left the labor force.
 E. This is possible; some businesses shut down and therefore their workers would not be considered unemployed.
7. Okun's law states a relationship between the GDP gap and the _____.
- A. trade deficit
 B. government budget deficit
 C. actual and expected inflation rate
 D. actual unemployment rate and the natural rate of unemployment
 E. rate of growth in real GDP and the rate of growth in labor productivity

8. Your great grandfather told you: "When I was your age in 1940, I only earned \$2 an hour." You replied: "Yeah, well in today's prices, that's twice what I make!" If the CPI was 14 in 1940, and you currently make \$14 an hour, what is the current CPI value you assumed when you made that statement?
- A. 142
 - B. 168
 - C. 196
 - D. 200
 - E. 392
9. Suppose nominal GDP grew from \$10,000 to \$12,000 in 5 years. Over the same 5 years the inflation rate was exactly 4 percent each year. What is true about output for this economy over these 5 years?
- A. output fell
 - B. output stayed the same
 - C. output grew, but less than 4 percent
 - D. output grew by 4 percent
 - E. output grew more than 4 percent
10. On which short-run target does the Fed currently focus?
- A. interest rate
 - B. inflation rate
 - C. money supply
 - D. aggregate demand
 - E. economic growth rate
11. A traditional economic growth model that utilizes a production function that turns capital per worker into output per worker has which of the following characteristics?
- A. It assumes diminishing marginal returns to capital per worker and predicts newly industrialized countries will grow faster than established industrialized countries.
 - B. It assumes increasing marginal returns to capital per worker and predicts newly industrialized countries will grow slower than established industrialized countries.
 - C. It assumes diminishing marginal returns to capital per worker and predicts newly industrialized countries will grow slower than established industrialized countries.
 - D. It assumes increasing marginal returns to capital per worker and predicts newly industrialized countries will grow faster than established industrialized countries.
 - E. It assumes constant marginal returns to capital per worker and predicts newly industrialized countries will grow at the same rate as established industrialized countries.
12. Assume there is no autonomous consumption (households consume zero if income is zero) and the only taxes come from a flat income tax rate (thus income taxes are income times the tax rate and must be paid before consuming or saving). If the equilibrium level of consumption is 4 times the level of saving ($4S = C$), what must be the APC?
- A. .6
 - B. .7
 - C. .75
 - D. .8
 - E. .9

13. In an open economy without government transfer payments, where $Y = C + I + G + NX$, which of the following must equal net exports?
- A. private saving minus consumption
 - B. taxes minus government spending
 - C. investment plus government spending
 - D. national saving minus domestic investment
 - E. government spending plus consumption plus investment
14. Which person would be the most likely to promote a procyclical monetary policy?
- A. a monetarist
 - B. a classical economist
 - C. a Keynesian economist
 - D. a neo-classical economist
 - E. a misinformed politician
15. From 1950 to 2000, the U.S. labor force participation rate steadily climbed. Which is true about this steady increase?
- A. it rose about 4 percentage points primarily due to women entering the labor force
 - B. it rose about 8 percentage points primarily due to women entering the labor force
 - C. it rose about 4 percentage points primarily due to older workers retiring later
 - D. it rose about 8 percentage points primarily due to older workers retiring later
 - E. it rose about 12 percentage points primarily due to women entering the labor force and older workers retiring later