

**2007 NATIONAL ECONOMICS CHALLENGE**  
**NCEE/Goldman Sachs Foundation**

**Round II – Macroeconomics**  
**Regional Competition, David Ricardo Division**

*Please select the one best answer.*

1. Which would NOT tend to be a cause of an increase in productivity?
  - A. increases in labor supply
  - B. increases in capital
  - C. increases in human capital
  - D. increases in quality of capital
  - E. improvements in technology
  
2. 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
  
3. Which is the correct description of the crowding out effect?
  - A. increases in government deficits crowd out effective expansionary monetary policy
  - B. increases in trade deficits crowd out effective expansionary monetary policy
  - C. increases in trade deficits crowd out effective expansionary fiscal policy
  - D. increases in government deficits crowd out investment
  - E. increases in private saving crowd out public saving
  
4. Which best explains an inverted yield curve?
  - A. long-term interest rates are lower than short-term interest rates
  - B. interest rates increase at an increasing rate at high bond prices
  - C. the money demand curve bends backwards at high interest rates
  - D. the money supply curve becomes downward sloping at high interest rates
  - E. the rate of return on long-term investment projects becomes greater than on short-term investment projects
  
5. Which of the following events is NOT expected to decrease aggregate demand?
  - A. an increase in the level of income taxes
  - B. a decrease in government purchases
  - C. an increase in real interest rates
  - D. a decrease in foreign incomes
  - E. an increase in the price level

6. Consider an economy whose Bureau of Labor Statistics determined the following values for December, 2006:
- |   |         |
|---|---------|
| Population:   | 100,000 |
| % of population that is of working age:                     | 80%     |
| Labor force participation rate:                             | 50%     |
| % of working-age population that are "discouraged workers": | 1%      |
| Number classified as unemployed:                            | 4,000   |
- What was the unemployment rate?
- A. 4%  
 B. 8%  
 C. 10%  
 D. 50%  
 E. 55%
7. Consider an economy with the following values for nominal GDP and the GDP deflator:
- |                      |         |
|----------------------|---------|
| Nominal GDP (2006):  | \$2,400 |
| Nominal GDP (2005):  | \$2,100 |
| GDP deflator (2006): | 120     |
| GDP deflator (2005): | 105     |
- What was the rate of growth of real GDP from 2005 to 2006?
- A. 0 percent  
 B. about 1.05 percent  
 C. about 1.10 percent  
 D. about 6 percent  
 E. about 14.3 percent
8. You consider purchasing a \$1,000 government bond from your Uncle. The coupon rate on the bond is 5 percent. The bond matures in one year, at which time you will receive the principal and the last (and your only) coupon payment. What would be the maximum amount you would be willing to pay for the bond if the best interest rate you could earn on your saving is 4 percent?
- A. about \$910  
 B. about \$1,005  
 C. about \$1,010  
 D. about \$1,015  
 E. about \$1,020
9. 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

10. Which is the most likely market reaction to a decision by the Federal Reserve to conduct easier monetary policy?
- |    | <u>Money Supply</u> | <u>Interest rates</u> | <u>Bond prices</u> |
|----|---------------------|-----------------------|--------------------|
| A. | increase            | increase              | Increase           |
| B. | increase            | decrease              | decrease           |
| C. | increase            | decrease              | increase           |
| D. | decrease            | decrease              | decrease           |
| E. | decrease            | increase              | decrease           |
11. Which agency calculates and reports the CPI in the United States?
- A. Federal Reserve Board
  - B. Bureau of Labor Statistics
  - C. Department of the Treasury
  - D. Bureau of Economic Analysis
  - E. National Bureau of Economic Research
12. Which best explains increases in real GDP over the long run according to real business cycle theory?
- A. An improvement in technology
  - B. An increase in real wages
  - C. A decrease in real interest rates
  - D. An increase in the real money supply
  - E. A decrease in the budget deficit as a percent of real GDP
13. Consider the simple expenditure model for a closed economy in the short run (the price level remains constant) with a marginal propensity to consume of 0.75. If government spending were to increase by \$100 million and taxes were to increase by \$100 million, what would be the effect on real GDP?
- A. real GDP would fall by \$100 million
  - B. real GDP would remain unchanged
  - C. real GDP would increase by \$75 million
  - D. real GDP would increase by \$100 million
  - E. real GDP would increase by \$400 million
14. Over the past 100 years in the United States, what has been the general trend in the length of the various phases of the business cycle?
- A. The lengths of expansions and recessions have stayed relatively stable.
  - B. Both expansions and recessions have become shorter.
  - C. Both expansions and recessions have become longer.
  - D. Expansions have become longer and recessions have become shorter.
  - E. Expansions have become shorter and recessions have become longer.
15. Within which range is the current labor force participation rate?
- A. 50% - 59%
  - B. 60% - 69%
  - C. 70% - 79%
  - D. 80% - 89%
  - E. 90% - 99%