A nation's standard of living is best measured by its

a. real GDP.
b. real GDP per person.
c. nominal GDP.
d. nominal GDP per person.

Productivity is defined as the quantity of

a. labor required to produce a nation’s GDP.
b. labor required to produce one unit of goods and services.
c. goods and services produced from each unit of labor input.
d. goods and services produced per unit of time.

The key determinant of the standard of living in a country is

a. the amount of goods and services produced from each hour of a worker's time.
b. the total amount of goods and services produced within the country.
c. the total amount of its physical capital.
d. its growth rate of real GDP.

Productivity:

a. is nearly the same across countries, and so provides no help explaining differences in the standard of living across countries.
b. explains very little of the differences in the standard of living across countries.
c. explains some, but not most of the differences in the standard of living across countries.
d. explains most of the differences in the standard of living across countries.

An understanding of the best ways to produce goods and services is called:

a. human capital.
b. physical capital.
c. technology.
d. productivity.

Human capital is
a. the same thing as technological knowledge.
b. the same thing as labor.
c. the tools and equipment operated by humans.
d. knowledge and skills that workers have acquired.

- If your firm’s production function has constant returns to scale, and if you double all your inputs, then your firm's productivity will
  a. not change.
  b. increase but not double.
  c. double.
  d. more than double.

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. If the production function has the constant-returns-to-scale property, then it could be rewritten as

a. Y/L = AF(1, K/L, H/L, N/L)

b. Y/L = AF(L, 1, H/L, N/L)

c. Y/L = AF(L, K/L, 1, N/L)

d. Y/L = AF(L, K/L, H/L, 1)

When the overall level of prices in the economy is increasing, economists say that the economy is experi-encing

a. economic growth.
b. stagflation.
c. inflation.
d. deflation.

The inflation rate is defined as the

a. price level in an economy.
b. change in the price level from one period to the next.
c. percentage change in the price level from the previous period.
d. price level minus the price level from the previous period.

The CPI is a measure of the overall cost of the goods and services bought by

a. a typical consumer, and the CPI is computed and reported by the Department of the Treasury.

b. typical consumers and typical business firms, and the CPI is computed and reported by the Department of the Treasury.

c. a typical consumer, and the CPI is computed and reported by the Bureau of Labor Statistics.

d. typical consumers and typical business firms, and the CPI is computed and reported by the Bureau of Labor Statistics.

Suppose a basket of goods and services has been selected to calculate the CPI and 2002 has been selected as the base year. In 2002, the basket's cost was $50; in 2004, the basket's cost was $52; and in 2006, the bas-ket's cost was $57.25. The value of the CPI in 2006 was

a. 91.6.

b. 104.6.

c. 109.2.

d. 114.5. (57,25/50) *100

The price index was 220 in one year and 260 in the next year. What was the inflation rate?

(260-220)/220 = 18.2%

For an economy as a whole,

a. wages must equal profit.
b. consumption must equal saving.
c. income must equal expenditure.
d. the number of buyers must equal the number of sellers.

According to the circular-flow diagram GDP
a. can be computed as either the revenue firms receive from the sales of goods and services or the payments they make to factors of production.
b. can be computed as the revenue firms receive from the sales of goods and services but not as the payments they make to factors of production.
c. can be computed as payments firms make to factors of production but not as revenues they receive from the sales of goods and services.
d. cannot be computed as either the revenue firms receive or the payments they make to factors of production.

Most goods and services produced at home

a. and most goods and services produced illegally are included in GDP.

b. are included in GDP while most goods and services produced illegally are excluded from GDP.

c. are excluded from GDP while most goods and services produced illegally are included in GDP

d. and most goods and services produced illegally are excluded from GDP.

The principle of comparative advantage asserts that
a. not all countries can benefit from trade with other countries.
b. the world price of a good will prevail in all countries, regardless of whether those countries allow international trade in that good.
c. countries can become better off by exporting goods, but they cannot become better off by importing goods.

Trade raises the economic well-being of a nation in the sense that

a. the gains of the winners exceed the losses of the losers.
b. everyone in an economy gains from trade.
c. since countries can choose what products to trade, they will pick those products that are most beneficial to society.
d. the nation joins the international community.

The size of a tax and the deadweight loss that results from the tax are

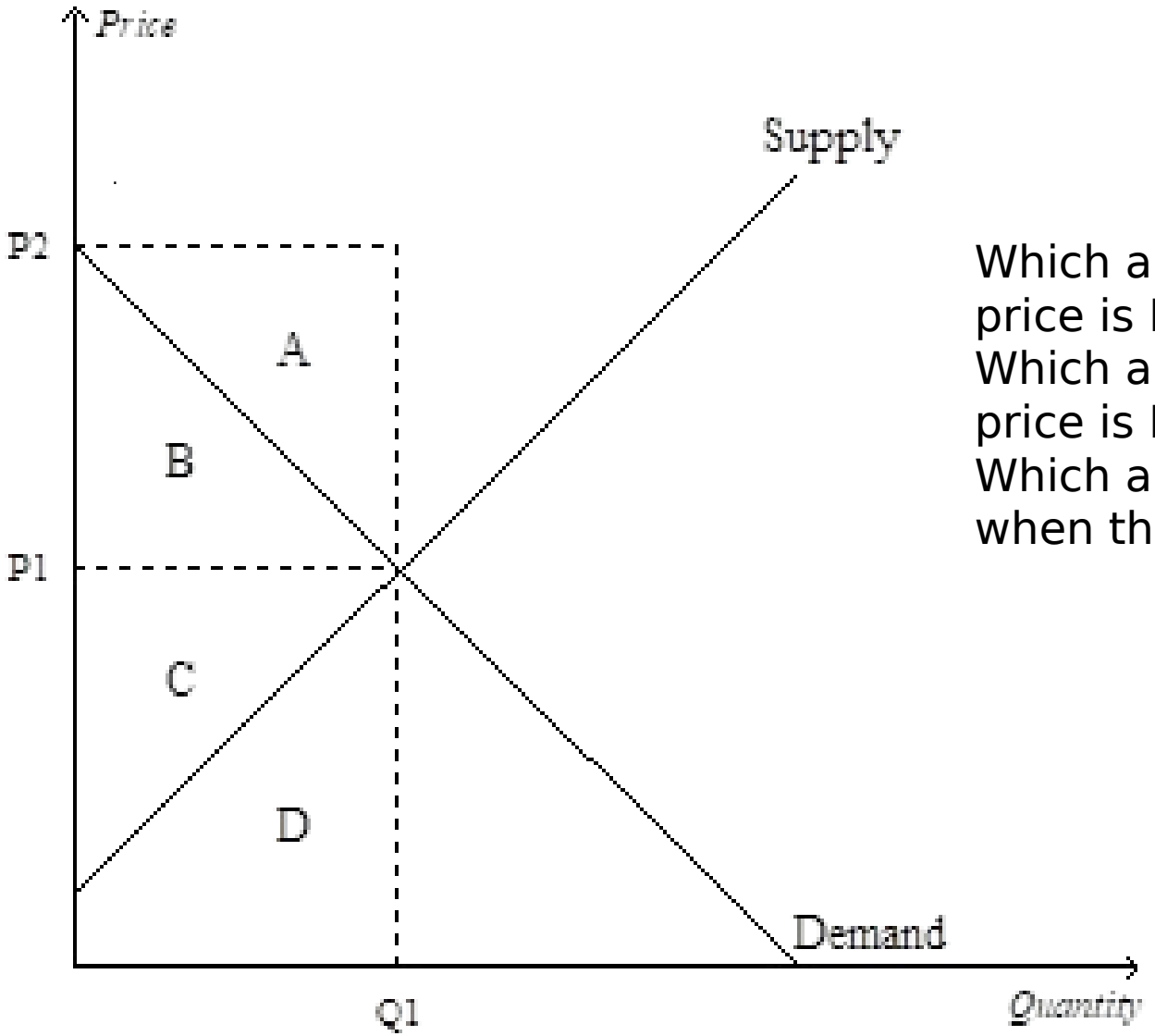
a. positively related.
b. negatively related.
c. independent of each other.
d. equal to each other.

Suppose the tax on gasoline is raised from $0.50 per gallon to $2.50 per gallon. As a result,

a. tax revenue necessarily increases.
b. the deadweight loss of the tax necessarily increases.
c. the demand curve for gasoline necessarily becomes steeper.
d. All of the above are correct.

A tax placed on a good

a. causes the effective price to sellers to increase.
b. affects the welfare of buyers of the good but not the welfare of sellers.
c. causes the equilibrium quantity of the good to decrease.
d. creates a burden that is usually borne entirely by the sellers of the good.



Which area represents consumer surplus when the price is P1? B
Which area represents producer surplus when the price is P1? C
Which area represents total surplus in the market when the price is P1? B+C

Which of these statements best represents the law of demand?

a. When buyers' tastes for a good increase, they purchase more of the good.

b. When income levels increase, buyers purchase more of most goods.

c. When the price of a good decreases, buyers purchase more of the good.

d. When buyers' demands for a good increase, the price of the good increases.

When we move along a given demand curve,

a. only price is held constant.

b. income and price are held constant.

c. all nonprice determinants of demand are held constant.

d. all determinants of quantity demanded are held constant.

Economists make assumptions to

a. provide issues for political discussion.
b. make a complex world easier to understand.
c. make it easier to teach economic concepts and analysis.
d. create policy alternatives that are incomplete or subject to criticism.

Last year the imaginary nation of Freedonia had a population of 2,700 and real GDP of 16,200,000. This year it have a population of 2,500 and real GDP of 14,640,000. What was the growth rate of real GDP per person between last year and this year?

16200000/270=6000
14640,000/2,500=5856
Grwth rate =(5856-6000)/6000= -0,024

In a simple economy, people consume only 2 goods, food and clothing. The market basket of goods used to compute the CPI consists of 50 units of food and 10 units of clothing.

	Food	**Clothing**
2002 price per unit	$4	$10
2003 price per unit	$6	$20

a. What are the percentage increases in the price of food and in the price of clothing?
b. What is the percentage increase in the CPI?
c. Do these price changes affect all consumers to the same extent? Explain.

The CPI in any year equals

$$100 \times \frac{\text{cost of basket in current year}}{\text{cost of basket in base year}}$$

a. The price of food increased by 50 percent ([6-4]/4 x 100). The price of clothing increased by 100 percent ([20-10]/10 x 100).

b. In 2002, the market basket cost $300 (4x50 + 10x10); in 2003, it cost $500 (6x50 + 20x10). The percentage increase in the CPI is 66.7 percent ([500-300]/300 x 100).

c. Because the price of clothing increased relatively more than the price of food, people who purchase a lot of clothing and little food