## ECO 120: Global Macroeconomics

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Practice Exam 1, Fall 2022 Instructor: James M. Murray, PhD

Multiple choice: Choose the best response to each prompt.

- 1. The production possibilities frontier model shows that
  - (a) economic growth can only be achieved by free market economies.
  - (b) if consumers decide to buy more of a product its price will increase.
  - (c) a market economy is more efficient in producing goods and services than is a centrally planned economy.
  - (d) if all resources are fully and efficiently utilized, more of one good can be produced only by producing less of another good.
- 2. When an economy is not producing efficiently,
  - (a) it is producing at a point outside the production possibilities frontier.
  - (b) the production possibilities frontier shifts outward.
  - (c) it is producing at a point inside the production possibilities frontier.
  - (d) the production possibilities frontier shifts inward.
- 3. A production possibilities frontier with a bowed outward shape indicates
  - (a) the possibility of inefficient production.
  - (b) constant opportunity costs as more and more of one good is produced.
  - (c) increasing opportunity costs as more and more of one good is produced.
  - (d) decreasing opportunity costs as more and more of one good is produced.
- 4. Suppose a war leads to the destruction of factories, electric utilities, and other infrastructure in an economy. Which of the following would happen to the PPF?
  - (a) The PPF would shift inward.
  - (b) The economy would move to a point inside the PPF.
  - (c) The economy would move to the left along the PPF.
  - (d) The PPF would shift outward.
- 5. An outward shift of a nation's production possibilities frontier represents
  - (a) rising prices of the two goods on the production possibilities frontier model.
  - (b) economic growth.
  - (c) an impossible situation.
  - (d) a situation in which a country produces more of one good and less of another.

- 6. Without an increase in the supplies of factors of production, how can a nation achieve economic growth?
  - (a) by producing more high-value goods and less of low-value goods
  - (b) by lowering the prices of factors of production
  - (c) by increasing the prices of factors of production
  - (d) through technological advancement which enables more output with the same quantity of resources
- 7. Suppose there is no unemployment in the economy and society decides that it wants more of one good. Which of the following statements is true?
  - (a) It can increase output without giving up another good.
  - (b) It will have to give up production and consumption of some other good.
  - (c) It can only achieve this with an increase in resource supplies.
  - (d) It can only achieve this with an advance in technology.
- 8. Which of the following was one of the consequences of introducing a peanut butter grinder and blender to rural Mali?
  - (a) Healthier births in the clinics.
  - (b) Increase in obesity with people eating more peanut butter.
  - (c) Decrease in literacy among women.
  - (d) Increase in the price of other grinders.
- 9. A downward-sloping demand curve illustrates the
  - (a) law of demand.
  - (b) negative relationship between quantity demanded and quantity supplied.
  - (c) idea that the more of one good that a consumer buys, the less income she has to spend on other goods.
  - (d) relationship between consumers' income and their willingness to purchase the good in question, provided the good is inferior.
- 10. When quantity demanded decreases at every possible price, we know that the demand curve has
  - (a) shifted to the right.
  - (b) not shifted; rather, we have moved up the demand curve to a new point on the same curve.
  - (c) not shifted; rather, we have moved down the demand curve to a new point on the same curve.
  - (d) shifted to the left.

- 11. The **supply** curve will shift to the left when
  - (a) the demand for the good by consumers increases.
  - (b) the amount of profit a firm can expect to receive from selling the good increases.
  - (c) prices of the inputs used to make the good increase.
  - (d) the price of the good being supplied decreases.
- 12. When the price of one good increases it leads to a decrease in demand for a second good. The two goods are most likely
  - (a) inferior goods
  - (b) substitutes
  - (c) complements
  - (d) unrelated
- 13. Jet fuel is an important input in the production of aviation transport (airline services). If the price of jet fuel decreases, other things equal, we would expect the supply of
  - (a) aviation transport to be unaffected.
  - (b) jet fuel to decrease.
  - (c) aviation transport to increase.
  - (d) aviation transport to decrease.
- 14. A technological advance in the production of a good or service will shift the
  - (a) supply curve to the right.
  - (b) demand curve to the left.
  - (c) demand curve to the right.
  - (d) supply curve to the left.
- 15. If a shortage (excess demand) exists in a market we know that the existing price is
  - (a) below equilibrium price and quantity demanded is greater than quantity supplied.
  - (b) above equilibrium price and quantity demanded is greater than quantity supplied.
  - (c) below equilibrium price and quantity supplied is greater than quantity demanded.
  - (d) above equilibrium price and quantity supplied is greater than quantity demanded.

- 16. What would most likely happen to the equilibrium price and quantity of peanut butter if the price of peanuts (an input for peanut butter) went up, the price of jelly (a complementary good) fell, fewer firms decided to produce peanut butter, and health officials announced that eating peanut butter was good for you?
  - (a) Price will decrease and the effect on quantity is ambiguous (uncertain).
  - (b) Quantity will decrease and the effect on price is ambiguous (uncertain).
  - (c) Price will increase and the effect on quantity is ambiguous (uncertain).
  - (d) The effect on both price and quantity is ambiguous (uncertain).
- 17. Suppose there is a hurricane that destroys portions of Florida orange groves. Which of the following statements is **not correct** regarding the result in the market for Florida oranges:
  - (a) The equilibrium price would definitely increase.
  - (b) The equilibrium quantity would definitely decrease.
  - (c) Buyers would not be willing to buy as much as before at each relevant price.
  - (d) The market supply would be reduced at each relevant price.
- 18. Suppose that the incomes of buyers in a particular market for a normal good decline and there is also an increase in input prices for producers. What would we expect to occur in this market?
  - (a) Both equilibrium price and equilibrium quantity would definitely increase.
  - (b) The equilibrium price would decrease, but the impact on the amount sold in the market would be ambiguous (uncertain).
  - (c) Equilibrium quantity would decrease, but the impact on equilibrium price would be ambiguous (uncertain).
  - (d) The equilibrium price would increase, but the impact on the amount sold in the market would be ambiguous (uncertain).
- 19. If the nominal exchange rate between the American dollar and the Canadian dollar is 1.12 U.S dollars per Canadian dollar, how many American dollars are required to buy a product that costs 3.25 in Canadian dollars?
  - (a) 0.34
  - (b) 2.9
  - (c) 3.64
  - (d) 4.37

- 20. You're traveling in Japan and are thinking about buying a new digital camera. You've decided you'd be willing to pay \$125 for a new camera, but cameras in Japan are all priced in Yen. If the exchange rate is 109 Yen per dollar, what's the highest price in Yen you'd be willing to pay for a camera?
  - (a) 115 Yen
  - (b) 887 Yen
  - (c) 234 Yen
  - (d) 13,625 Yen
- 21. Suppose there is an increase in demand in the Euro area for grain produced in Russia. All else remaining equal, this should lead to which of the following?
  - (a) A decrease in demand for the Euro
  - (b) A decrease in demand for the Russian Ruble
  - (c) An increase in demand for the Euro
  - (d) An increase in demand for the Russian Ruble
- 22. Suppose Euro-area countries reduce trade barriers that allow its citizens to import more products from China and with lower taxes / tariffs. As a result,
  - (a) the Euro will appreciate against the Chinese Yuan.
  - (b) the Chinese Yuan will appreciate against the Euro.
  - (c) The Chinese Yuan will depreciate against the Euro.
  - (d) both the Euro and Chinese Yuan will appreciate relative to each other.
- 23. How will an interest rate increase in the United States affect equilibrium in the foreign exchange market?
  - (a) The equilibrium exchange rate cannot be determined, and the equilibrium quantity of dollars traded will increase.
  - (b) The U.S. dollar will appreciate, and the equilibrium quantity of dollars traded cannot be determined.
  - (c) The U.S. dollar will depreciate, and the equilibrium quantity of dollars traded cannot be determined.
  - (d) The U.S. dollar will appreciate, and the equilibrium quantity of dollars traded will increase.
- 24. Suppose incomes rise in Europe, but there is no change in incomes in the United States. As a result, Europeans demand more products produced in the United States and in Europe. As a result,
  - (a) the Euro will depreciate relative to the U.S. dollar.
  - (b) the U.S. / Euro exchange rate will not be affected.
  - (c) both the U.S. dollar and Euro will appreciate relative to each other.
  - (d) the U.S. dollar will depreciate relative to the Euro.

- 25. Suppose there is an increase in interest rates in Europe and Japan, but the increase in interest rates is greater in Japan. Which of the following would happen in the foreign exchange market between Euros and Japanese Yen as a result?
  - (a) There will be an increase in demand for Japanese Yen and a decrease in demand for Euros
  - (b) There will be an increase in supply of Japanese Yen and a decrease in supply of Euros.
  - (c) There will be an increase in demand for both Japanese Yen and Euros.
  - (d) There will be no change in demand for either currency.

Short-answer and problem-solving questions: Provide written answers to each question in the space provided.

26. Suppose an economy produces automobiles and planes according the following production possibilities table:

Production	Automobiles	Planes
Choice		
А	600	0
В	540	10
С	420	20
D	240	30
$\mathbf{E}$	0	40

Compute the opportunity cost of producing a plane at each level in the table. Does plane production exhibit increasing, decreasing, or constant opportunity cost?

27. Suppose an economy produces manufactured goods and agricultural goods. Suppose a drought leads to a poor growing season for farmers. Describe and illustrate the impact on the production possibilities frontier.

28. Suppose an improvement in manufacturing technology makes it easier to produce automobiles. Describe and illustrate the impact on the market for automobiles.

29. Suppose people lose their desire to dine indoors at restaurants. Describe and illustrate the impact on groceries at the grocery store.

30. Suppose there is a technological innovation in producing recycled paper and at the same time, people become more concerned about using environmentally-friendly products. Describe and illustrate the impact on the equilibrium price and quantity of recycled paper.

31. Suppose weather conditions in spring and summer provided an excellent growing season for tomatoes, while at the same time, new research is reported in the news suggesting tomatoes provide more health benefits than previously thought. Describe and illustrate the impact on the equilibrium price and quantity of tomatoes.

32. Suppose interest rates decrease in Brazil and Argentina, but the decrease is smaller in Argentina. Describe and illustrate the impact on the Brazilian *Real* (BRL) to Argentine Peso (ARS) exchange rate.

33. Suppose incomes increase in Mexico and there is no change in incomes in the United States. Describe and illustrate the impact on the Mexican Peso (MXN) to U.S. Dollar (USD) exchange rate.

34. Suppose 1 USD (U.S. Dollar) trades for 0.92 GBP (British Pound Sterling). Suppose an Uber ride costs 32 GBP in the United Kingdom. Compute the price of the ride in U.S. dollars.

35. Suppose European demand for oil and natural gas decreases. Norway is a large source for oil and natural gas imports to the Euro area. Describe and illustrate the impact on the equilibrium exchange rate between the Norway Kroner (NOK) and the Euro (EUR).