Section I, Multiple Choice (28 points)

1. In terms of the production possibilities frontier, economic growth can be shown by a
   a. movement from a point inside the frontier to a point on the frontier.
   b. movement upward along the frontier.
   c. movement downward along the frontier.
   d. shift of the frontier in an outward direction.

2. If Canada can increase its production of automobiles without decreasing its production of any other good,
   a. Canada must be producing at a point outside its production possibilities frontier
   b. Canada must be producing at a point on its production possibilities frontier
   c. Canada must be producing at a point inside its production possibilities frontier
   d. None of the above answers is correct, because increasing the production of one good without decreasing the production of another good is never possible.

3. When demand increases
   a. equilibrium price will increase, but equilibrium quantity will decrease.
   b. equilibrium price will decrease, but equilibrium quantity will increase.
   c. both equilibrium price and quantity will increase.
   d. both equilibrium price and quantity will decrease.

4. If the wheat market is initially in equilibrium and the price of the fuel needed to harvest the wheat crop increases,
   a. the price of wheat will decrease.
   b. the supply of wheat will decrease.
   c. overall farmer profits will increase.
   d. the quantity transacted of wheat will increase.

5. In a 2-country, 2-good world, if Country A has an absolute advantage over Country B in the production of both goods,
   a. neither Country A nor Country B can gain from specialization and exchange.
   b. Country A can gain from specialization and exchange, but Country B cannot.
   c. Country B can gain from specialization and exchange, but Country A cannot.
   d. both Country A and Country B can gain from specialization and exchange.

6. In one day Brandon can either plow 40 acres of land or plant 20 acres, while Christopher can either plow 28 acres of land or plant 7 acres. Brandon and Christopher can
   a. gain from exchange if Brandon specializes in plowing and Christopher in planting
   b. gain from exchange if Brandon specializes in planting and Christopher in plowing
   c. specialize and exchange, but only Brandon will gain from the exchange
   d. specialize and exchange, but only Christopher will gain from the exchange

7. An increase in the value of the dollar relative to the Euro means
   a. U.S. consumers of German goods and services pay less for imported products.
   b. German imports of U.S. goods and services are less expensive.
   c. U.S. export industries benefit because of increased product exports to Germany.
   d. German consumers observe (receive) an increase in the value of their German assets.

8. U.S. trade restrictions on imports may result in
   a. retaliation by foreign countries against U.S. exports.
   b. higher prices for U.S. consumers.
   c. higher prices for foreign consumers
   d. both (a) and (b)
9. The Consumer Price Index in the base year
   a. is always equal to 100.
   b. can never be equal to 100.
   c. is always larger than any subsequent CPI calculations (in later years).
   d. is always smaller than any subsequent CPI calculations (in later years).

10. A family spends $20,000 on a basket of goods in 1990. The same basket of goods costs
    $24,000 in 1996. Using 1990 as the base year, the price index for 1996 is
    a. 104.
    b. 105.
    c. 120.
    d. 140.

11. The unemployment rate understates the true problem of unemployment because of
    a. the limited number of work hours for some part-time workers.
    b. the number of discouraged workers.
    c. people who are underemployed in jobs for which they are overskilled.
    d. all of the above.

12. Full employment means
    a. no structural unemployment.
    b. no frictional unemployment.
    c. no cyclical unemployment.
    d. all of the above.

13. Which of the following correctly completes this sentence: “Gross Domestic Product is....”
    a. the total market value of all final goods and services produced annually within a
      country.
    b. the total market value of all goods and services produced annually within a country.
    c. the total market value of all final goods and services produced annually by a country’s
      citizens.
    d. the total quantity of all final goods and services produced annually within a country.

14. In comparing Gross Domestic Product (GDP) and Real GDP (RGDP),
    a. the value of GDP is always greater than the value of RGDP.
    b. RGDP is inflation-adjusted whereas GDP is not.
    c. RGDP is calculated as GDP divided by the rate of interest.
    d. (a) and (b)
    e. all of the above

Section II, Direct Questions (24 points)

A. What is “protectionism”, who demands/requests protection, and from whom or what is protection demanded/requested?
B. What is the “Euro”? Briefly describe the movement of the value of the Euro since its inception.

C. Do increases in (1) income, (2) interest rates and (3) inflation increase or decrease a country’s currency value? Provide a brief explanation for each item.

  (1) Income: Increase / Decrease

  (2) Interest rates: Increase / Decrease

  (3) Inflation: Increase / Decrease

D. How is it that reported inflation rates in earlier years may have overstated the actual level of inflation in the economy? Give two reasons, with brief explanations.

E. What are some of the problems inherent in measuring and comparing GDP calculations for two countries such as the United States and China? Briefly explain at least two.

  (1)

  (2)
F. The author discusses three types of unemployment: frictional, structural and cyclical. Explain briefly what is meant by each of these terms. That is, what are the economic characteristics of each of these types of unemployment?

(1) Frictional
(2) Structural
(3) Cyclical

Section III, Problems (28 points)

A. (6 points) Suppose the following exchange rates are posted for the U.S. dollar ($), the Canadian dollar (C), the Euro (€), and the British pound (£):

$1 = 1.5C  \quad £1 = 1.6€  \quad €1 = 2.7C  \quad £1 = $1.8  \quad £1 = £1.2  \quad 1€ = 1.8C

1. Using three-point circular arbitrage, show how a currency trader could profit from the disequilibrium in these posted exchange rates.

2. By changing one or more exchange rates, provide a new set of equilibrium exchange rates.
B. (10 points) The graphs below represent the national markets for wine in France and Germany. $P_0$ and $Q_0$ are the initial no-trade equilibrium prices and quantities. Answer the questions below with respect to these graphs.

1. If France and Germany were to trade with each other, which country would export wine and which would import wine?
   
   Export: ______________________  Import: ______________________

2. Draw as accurately as possible the “world” equilibrium price after trade, and explain why this price is the equilibrium price.

3. Considering producers and consumers in each country, who would be the gainers and who would be the losers if France and Germany move from no trade to free trade?
   
   French consumers: GAIN / LOSE
   French producers: GAIN / LOSE
   German consumers: GAIN / LOSE
   German producers: GAIN / LOSE

4. What would be the price, quantity, and trade impacts in each country if domestic demand in the exporting country increased (shifted to the right)?
   
   French production: INCREASE / DECREASE
   French consumption: INCREASE / DECREASE
   German production: INCREASE / DECREASE
   German consumption: INCREASE / DECREASE
   Price in France: INCREASE / DECREASE
   Price in Germany: INCREASE / DECREASE
   Amount imported: INCREASE / DECREASE
   Amount exported: INCREASE / DECREASE
C. (12 points) Answer each of the questions and problems on this page by referring to the data sheet on the next page. SHOW YOUR WORK wherever possible.

1. Calculate the unemployment rate in 1978.

UE%, 1978: ____________

2. If the natural rate of unemployment is estimated at 5%, and the Frictional unemployment rate is estimated at 2%, calculate the estimated Structural unemployment rate and the Cyclical unemployment rate for 1983.

   Structural UE%: ____________
   Cyclical UE%: ____________

3. Calculate the inflation rate for 1996.

Inflation rate, 1996: ____________

4. Calculate the average inflation rate for the decade of the 1970s.

5. In what years was the United States economy in recession?

6. Compare the economic data (especially unemployment, inflation and output growth) for George Bush Jr.’s first term in office with those of his father’s only term in office. Which Bush presidency reflects better economic conditions? Explain. [NOTE: Presidential terms end in years divisible by four.]