

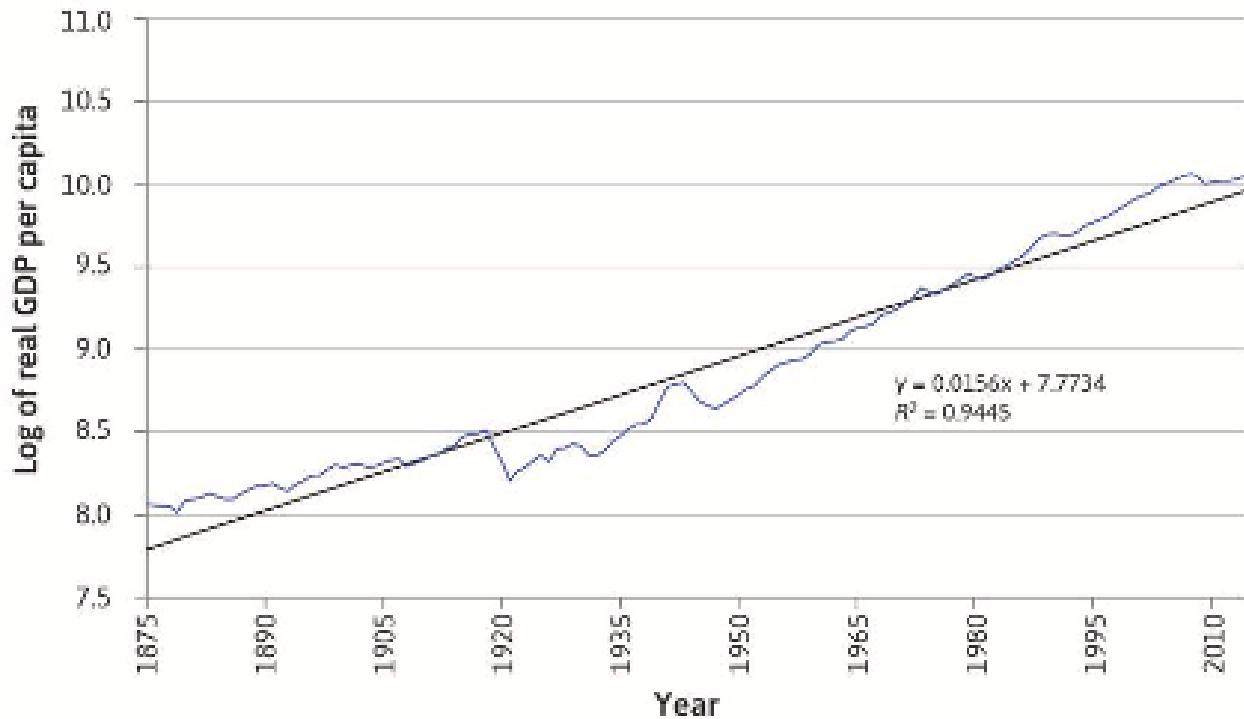
# ECON 2002.01 PROBLEM SET 7

## Unit 13

Hui-Jun Chen

---

- ① (OUP-U13-Q4) The figure above shows the log of UK real GDP per capita between 1875 and 1914. Which of the following is correct?



- (A) The growth of GDP in the 1950s was above the long-run average.
- (B) The growth of GDP in the 1880s was above the long-run average.
- (C) If, instead, this were 0.02 the line would be flatter.
- (D) The slope of the blue line tells us the rate of growth of per capita GDP but can tell us nothing about the level.
- ② (OUP-U13-Q6) Okun's law implies that: \_\_\_\_\_

- (A) Changes in the unemployment rate and GDP growth rate are positively correlated.
  - (B) The change in unemployment is negative in booms and positive in recessions.
  - (C) Every change in the level of employment is exactly matched by an opposite change in the level of unemployment.
  - (D) GDP growth rate and changes in unemployment are inversely correlated.
- ③ (OUP-U13-Q9) The data for Spain suggests that Okun's Law can be written as  $y = -0.3147x + 1.2821$ , where  $y$  is the change in unemployment rate and  $x$  is the GDP growth rate. What is the predicted change in unemployment if GDP grows by 2 per cent? \_\_\_\_\_
- (A) Unemployment increases by 1.9115 percentage points.
  - (B) Unemployment increases by 1.2758 percentage points.
  - (C) Unemployment increases by 0.6527 percentage points.
  - (D) Unemployment increases by 1.2192 percentage points.
- ④ (OUP-U13-Q12) Assume that a household has access to credit. Which of the following is likely to have a significant effect on long-run consumption? \_\_\_\_\_
- (A) A temporary reduction in income.
  - (B) A rise in interest rates.
  - (C) An unexpected promotion to a senior position.
  - (D) A freeze in the value of state retirement benefits.
- ⑤ (OUP-U13-Q15) Why is investment spending likely to be more volatile than consumption spending? \_\_\_\_\_
- (A) Because investment depends entirely on 'animal spirits'.
  - (B) Because firms cannot foresee the future.

- (C) Because a large part of consumption spending is on items that cannot be postponed. ('non-discretionary') – food, heating, lighting, shelter, for example.
- (D) Interest rates fluctuate.

⑥ (OUP-U13-Q17) Your economy is estimated to be producing about \$800bn-worth of goods and services this year. However, your official statisticians estimate that if all resources were fully-employed, it could produce about \$1000bn. The ratio 0.8 (or 80%,  $\frac{800bn}{1000bn}$ ) therefore indicates: \_\_\_\_\_

- (A) The level of unemployment.
- (B) The savings ratio.
- (C) The degree of capacity utilisation.
- (D) A budget surplus.

⑦ (OUP-U13-Q19) In the current year, your economy is expected to make exports of \$100bn and to import \$80bn-worth of goods and services. When it comes to measuring GDP (or aggregate demand) the net effect of your external sector is to: \_\_\_\_\_

- (A) External trade contributes \$20bn.
- (B) External trade reduces GDP by \$20bn.
- (C) We cannot tell.
- (D) It depends on the composition of imports and exports.

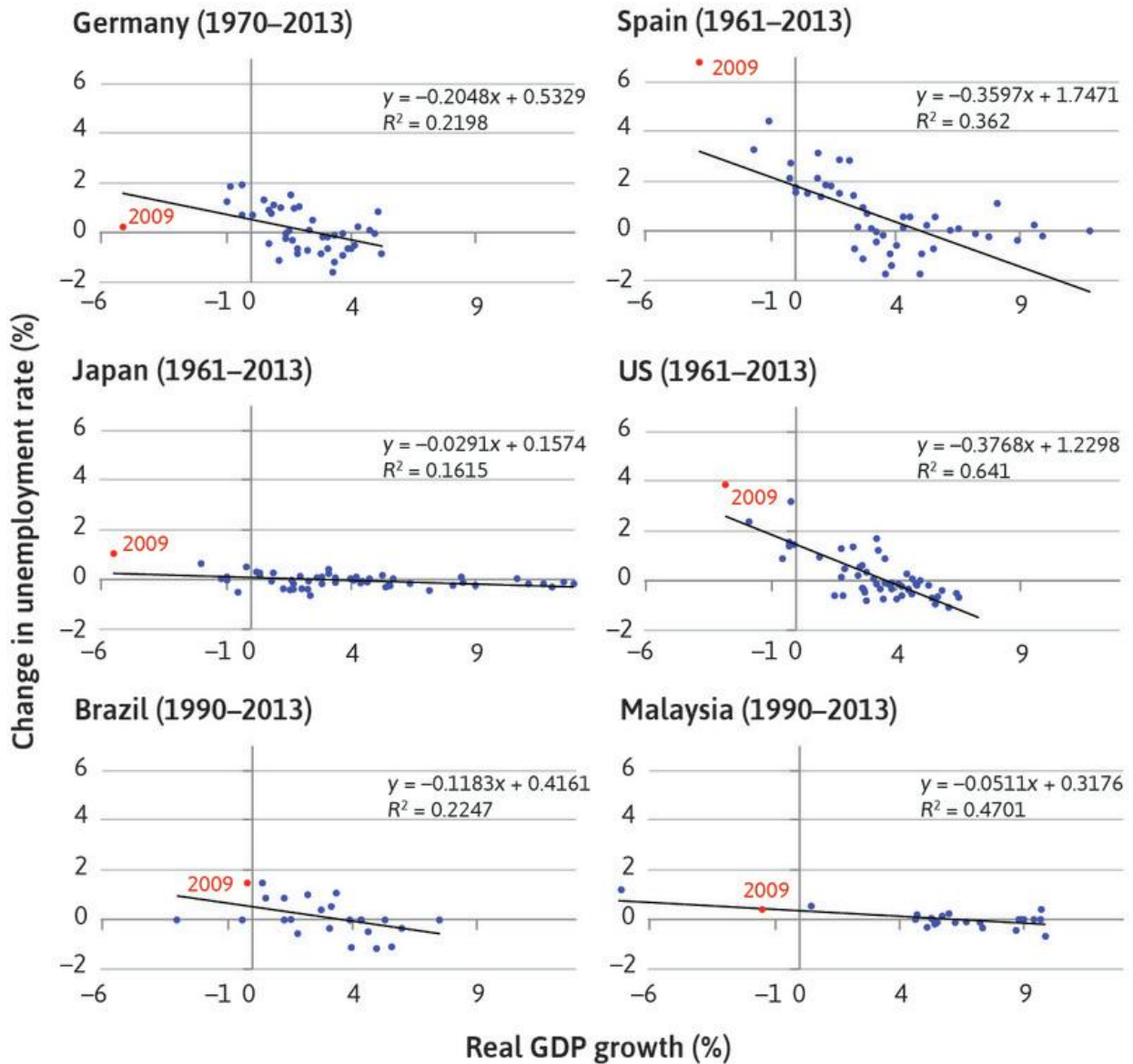
⑧ (OUP-U13-Q21) The Consumer Price Index (CPI): \_\_\_\_\_

- (A) Records the price of all goods and services in the economy.
- (B) Records the price of all goods produced in the domestic economy, including exports.
- (C) Measures the general level of prices that consumers pay for goods and services.
- (D) Measures the rate of inflation.

⑨ (OUP-U13-Q13) A temporary change in income affects the current consumption of credit-constrained households more than it does that of the unconstrained because: \_\_\_\_\_

- (A) A credit-constrained household is unlikely to have savings to fall back on.
- (B) If the household cannot borrow, its current consumption is limited by its current income.
- (C) A credit-constrained household cannot foresee the future.
- (D) Credit-constrained households are likely to be shortsighted.

- ⑩ (OUP-U13-Q16) The figure shows that total investment spending can be volatile because the interaction of individual firms' decisions can lead to vicious (low profit) or virtuous (high profit) circles. Which of the following might encourage all firms in the economy to behave in such a way that they all increase their investment spending together?



- (A) A fall in the exchange rate (the domestic currency becomes cheaper for foreign buyers).
- (B) A major technological breakthrough – say in batteries for electric cars.
- (C) The use by government of fiscal policy to increase aggregate demand.

(D) Calls from government for firms to increase investment.