ECON 2630 – Practice Problems 5

1. Which of the following is a common way of measuring the average standard of living?
   a. the unemployment rate plus the inflation rate
   b. real GDP divided by the price level
   c. the unemployment rate multiplied by the population
   d. real GDP divided by the population
   e. inflation rate divided by the population

2. An increase in the supply of labor will, everything else equal,
   a. increase the real wage rate and increase employment
   b. increase the real wage rate and decrease employment
   c. reduce the real wage rate and increase employment
   d. reduce the real wage rate and decrease employment
   e. increase the demand for labor and increase employment

3. Which combination of government policies would be most likely increase labor demand?
   a. increasing subsidies to education and increasing subsidies to businesses for hiring new employees
   b. reducing income tax rates and cutting transfer payments to the needy
   c. raising income tax rates and cutting transfer payments to the needy
   d. reducing subsidies to education and increasing subsidies to businesses for hiring new employees
   e. increasing subsidies to education and reducing subsidies to businesses for hiring new employees

4. Why does increasing employment not necessarily increase living standards?
   a. Productivity always increases as employment increases.
   b. Living standards and employment are always positively related.
   c. Increasing employment may not be accompanied by higher real wages.
   d. There is no upper limit to labor force participation.

5. If an economy is growing at a rate of 2.5% per year, how long will it take the economy to double in size?
   a. 18
   b. 25
   c. 29
   d. 36

6. The formula for labor productivity is given by
   a. employment/output
   b. output/population
   c. output/employment
   d. population/output

7. Which of the following could cause the production function to shift upward?
    a. a decrease in the capital stock
    b. an increase in the capital stock
    c. an increase in population
    d. a decrease in population

8. An increase in the government's budget surplus will
    a. reduce the demand for loanable funds, lower the interest rate, and increase investment spending
    b. reduce the demand for loanable funds, raise the interest rate, and increase investment spending
    c. increase the supply of loanable funds, lower the interest rate, and increase investment spending
    d. reduce the supply of loanable funds, raise the interest rate, and decrease investment spending

9. If households experienced greater uncertainty about their economic future, which of the following would occur in the market for loanable funds?
    a. The supply of funds would decrease, raising the interest rate and lowering investment spending.
    b. The supply of funds would decrease, lowering both the interest rate and investment spending.
    c. The supply of funds would increase, lowering both the interest rate and investment spending.
    d. The supply of funds would increase, lowering the interest rate and raising investment spending.

10. Which of the following would encourage the development of new technologies?
    a. rising interest rates
    b. reduced government subsidies for research and development
    c. increased tax rates on corporate profits
    d. increased patent protection for inventions