Answer Key
Testname: E322_SPRING_2007_TEST01

1) D
2) D
3) B
4) A
5) D
6) C
7) A
8) B
9) C
10) C
11) A
12) C
13) A
14) A
15) B
16) D
17) A
18) C
19) B
20) A
21) B
22) B
23) B
24) B
25) D

Analytical Questions

(1)

$$MPN = A(200 - N)$$

$$A = .2$$

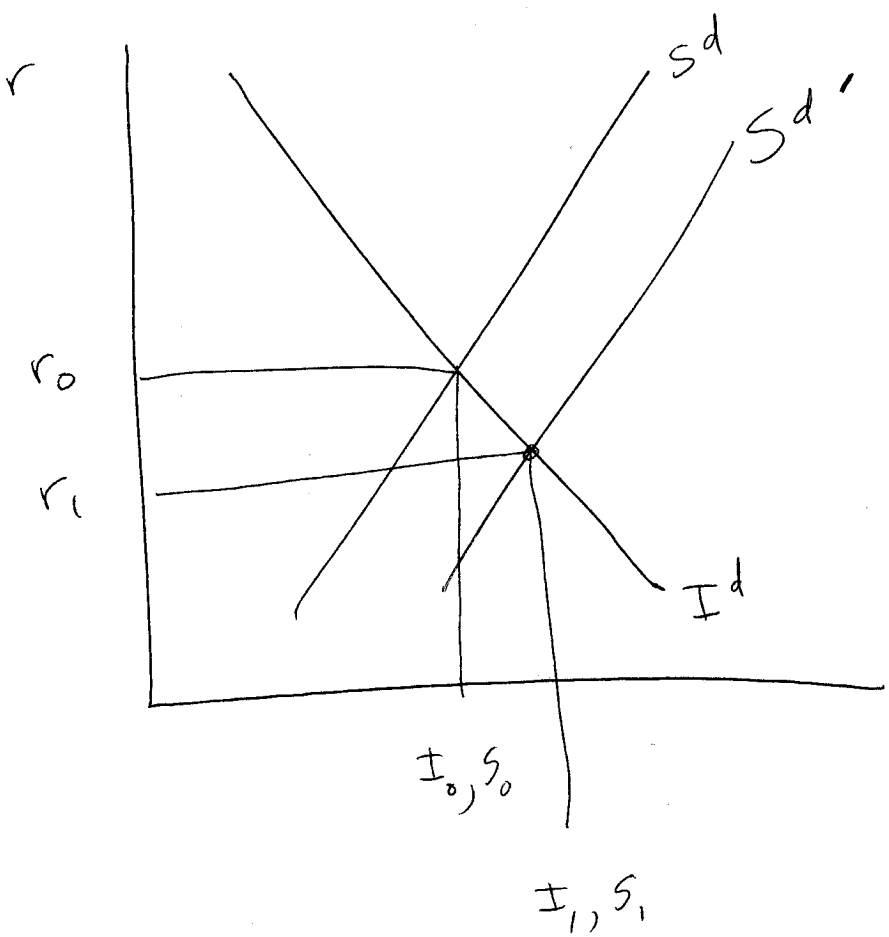
$$w = 10$$

$$10 = .2(200 - N)$$

$$50 = 200 - N$$

$$N = 150$$

(2)



An increase in income (output) results in higher saving at any r. The diagram shows

r ↓

S ↑

I ↑

If a productivity shock is <u>temporary</u>, the future MPK is not changed, so the desired capital stock and I^d do not change.

Selected Solutions

Test 1 Econ 322 Spring 2007

Multiple Choice

(4)

Real GDP 2003 = $500 \times 2 + 2000 \times 1 = 3000$

Real GDP 2004 = $900 \times 2 + 3000 \times 1 = 4800$

(Real GDP values current year quantities at base year prices)

Calculate % change in real GDP:

$$\frac{4800 - 3000}{3000} \times 100\% = 60\%$$

Answer A

(5) The GDP Deflator = $\frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$

In 2003 (Base Year) the Deflator is 100

In 2004: $\frac{900 \times 3 + 3000 \times 2}{3000 \times 1 + 900 \times 2} \times 100$

$\frac{8700}{4800} \times 100 = 181.25$

Deflator in 2004 ⇒ **181.25**

The % change is $\frac{181.25 - 100}{100} \times 100\% = 81.25\%$

(3) (3)

(3) $\frac{M^d}{P} = 1000 + .24 - 1000(r + \pi^e)$

$Y = 2000$ $\qquad V = \frac{PY}{M}$

$r = .06$

$\pi^e = .04$

So

$$\frac{M^d}{P} = 1000 + .2(2000) - 1000(.06 + .04)$$

$$= 1000 + 400 - 100$$

$$\frac{M^d}{P} = 1300$$

In equilibrium $M^d = M$, so $\frac{M}{P} = 1300$

Recall $V = \frac{PY}{M}$, so $V = \frac{Y}{M/P} = \frac{2000}{1300}$

$$\boxed{V = 1.54}$$

$M = 2600$, and $\frac{M}{P} = 1300$

So $\frac{2600}{P} = 1300 \Rightarrow \boxed{P = 2}$