

Name \_\_\_\_\_

1B Section 05,06, Quiz #1

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**Part I: Multiple Choice** (10 points)

(Circle the letter of the correct answer of the following 5 questions, no need to show your work.)

- 1) If the real interest rate is 5% and the inflation rate is 2%, then the nominal interest rate is
  - a) 3%
  - b) -3%
  - c) 7%
  - d) -7%
  - e) 10%
  
- 2) If the price is rising and the quantity is rising in the market for baseball bats, the most likely cause is
  - a) An improved technology for making baseball bats has been developed.
  - b) A decrease in consumers' income.
  - c) The price of wood (bats are made from wood) increases.
  - d) The World Series generates increased interest in the game of baseball.
  - e) The price of baseball gloves increases.
  
- 3) If you are given 4 dollars and spend 3 dollars, and everyone else in the economy is the same as you, then the simple multiplier for the economy is
  - a)  $3/4$
  - b)  $4/3$
  - c) 4
  - d) 2
  - e)  $3/2$
  
- 4) In a Classical Economy, an increase in government spending in the long run will
  - a) generate an increase in GDP and the Price Level
  - b) generate an increase in the Price Level
  - c) generate an increase in GDP
  - d) generate a decrease in the Price Level
  - e) generate a decrease in the GDP and increase the Price Level
  
- 5) If desired spending is greater than actual GDP in an economy
  - a) inventories increase, signaling firms to decrease production
  - b) inventories decrease, signaling firms to increase production
  - c) inventories decrease, signaling firms to decrease production
  - d) inventories increase, signaling firms to increase production
  - e) none of the above

**Part II: Short Answer Question #1** (10 points)

Consider the following information for France

Year	<u>Quantities</u>		<u>Prices</u>	
	<u>1996</u>	<u>1997</u>	<u>1996</u>	<u>1997</u>
Wine	5	7	3 Francs	4 Francs
Cheese	5	2	2 Francs	3 Francs

a) What is nominal GDP in 1996 and 1997?

b) What is real GDP in 1997, using 1996 prices? What is the growth rate of real GDP from 1996-1997?

c) If a Price Index is set equal to 100 in 1996, what is the Price Index for 1997?



