

Please choose the BEST answer to the following questions:

1. California's increase in the enforced minimum wage is likely to:
 - (a) create extra jobs in California.
 - (b) benefit California employers
 - (c) have no effect whatsoever
 - (d) raise the pay for some lower skilled workers
 - (e) allow California businesses to compete more successfully in world markets

2. The consumer price index (CPI) went from 60 last year to 90 this year. This year's inflation rate was:
 - (a) 30%
 - (b) 50%
 - (c) 15%
 - (d) -50%
 - (e) 1.5%

3. A \$1,000 increase in investment spending in an economy with a marginal propensity to consume of $\frac{3}{4}$ will change GDP by how much?
 - (a) \$2,000
 - (b) \$1,000
 - (c) -\$1,000
 - (d) \$1,333
 - (e) \$4,000

4. When producers do not sell all that they produce in a given year, the value of the unsold output:
 - (a) is subtracted from GDP for that year as depreciation.
 - (b) has no effect on GDP in any year.
 - (c) is counted in GDP for that year as consumption.
 - (d) is counted in GDP for that year as investment.
 - (e) is counted in GDP for the following year.

5. Calculate the growth rate of GDP between 1996 and 1997 if in 1996 the GDP is \$500 and in 1997 the GDP is \$700.
 - (a) .4%
 - (b) 40%
 - (c) \$200
 - (d) 28.6%
 - (e) -\$200

6. How many years would it take for the level of GDP to double in an economy with a constant growth rate of 4%.

- (a) 40
- (b) 17.5
- (c) 1,750
- (d) 4
- (e) we are not given enough information to answer the question.

7. Which of the following would cause the aggregate demand curve to shift.

- (a) An increase in government spending
- (b) An increase in the price level
- (c) A decrease in the supply of money
- (d) a and c
- (e) a, b and c

8. One of the problems with low inflation according to “Getting Adjusted” the article by Davis Wessel was:

- (a) purchasing power of wages decreases
- (b) workers adjust their spending habits too slowly
- (c) employers are not able to give sizable wage increases and workers feel their worth is diminished
- (d) nominal wages increase too quickly
- (e) real wages decrease

9. What is the tax multiplier?

10. Draw an example of the Classical economists long-run aggregate supply curve. Why does it have this shape? (Remember to label the axis)

11. Draw an example of the Keynesian short-run aggregate supply curve. Why does it have this shape? (Remember to label the axis)