1. When considering international trade, economic gains from trading item A for item B
   A. are possible if one country is better at producing item A and another country is better at producing item B.
   B. are possible if one country is better at producing both item A and item B.
   C. are possible for goods but not services (such as software and entertainment).
   **D. A and B**
   E. A and C
   F. A, B, and C

2. As a percent of U.S. GDP, which of the following increased the most between 1950 and 2000?
   A. Personal Consumption Expenditures (C)
   B. Gross Private Domestic Investment (I)
   C. Government Expenditures (G)
   **D. Exports of Goods and Services (EX)**

3. Target imports a DVD player from China costing $50 and sells it to a US consumer for $100. The net increase to nominal GDP in the U.S. is
   A. -$100
   B. -$50
   C. $0
   **D. +$50**
   E. +$100

4. Over the last 75 years, recessions in the U.S. have tended to become
   A. less frequent.
   B. less severe.
   C. shorter in duration.
   D. A and B
   E. A and C
   **F. A, B, and C**

5. A reason that the 2001 recession in the U.S. was unusual is that
   A. employment measured by the payroll survey declined much more than employment measured by the household survey.
   B. business investment levels remained at historically high levels.
   C. personal consumption expenditures (measured quarterly) did not decline.
   D. A and B
   **E. A and C**
   F. A, B, and C
6. As discussed in class, which of the following is not a potential problem with National Income and Product (NIPA) accounting?
   A. Most countries do not attempt to measure the value of black market transactions.
   B. It is difficult to measure the value of goods and services produced and consumed by the same household.
   C. Government services are usually recorded at cost instead of their actual value.
   D. Measuring the real value of goods and services requires making difficult adjustments for quality changes and new technology.
   E. All the above are potential problems.

7. The consumer price index (CPI) measures price changes for
   A. finished goods, retail goods, and intermediate goods
   B. raw materials, retail goods, and retail services
   C. finished goods, raw materials, and intermediate goods
   D. crude goods, finished goods, retail goods and retail services
   E. only retail goods and retail services

8. In the U.S. (and in most countries for that matter) which of the following price indices has been the most volatile over the last 20 years?
   A. Producer Price Index for crude goods
   B. Producer Price Index for intermediate goods
   C. Producer Price Index for finished goods
   D. Consumer Price Index excluding food and energy
   E. They have all been about equally volatile

9. The U.S. current account deficit is
   A. small by historical standards when measured as a percent of GDP.
   B. increasing the amount of (foreign) wealth held by Americans.
   C. shrinking (over the last 10 years).
   D. partially due to strong U.S. consumer demand relative to demand in foreign economies.
   E. None of the above

10. The balance of payments identity states that
    A. the value of goods exported must equal the value of goods imported.
    B. the value of goods and services exported must equal the value of goods and services imported.
    C. the difference in the value of imports and exports must equal net unilateral transfers.
    D. differences in the financial and current account are not sustainable in the long-run.
    E. None of the above.
11. The recent data for September personal income and expenditures in the U.S. showed
   A. consumers earned less and spent more.
   B. consumers earned the same but spent less.
   C. no change material change in earnings or spending.
   E. **an unusually large increase in earnings due to insurance payouts.**

12. At the last FOMC meeting the committee decided to
   A. leave interest rates unchanged and maintain their position that future risks are
toward a stronger economy.
   B. raise the Fed Funds Rate 0.25% and signal that they are likely to be finished
raising rates.
   C. raise the Fed Funds Rate 0.25% but shift their position on future rates to a neutral
stance.
   D. raise the Fed Funds Rate 0.50% and signal that they are likely to be finished
raising rates.
   E. raise the Fed Funds Rate 0.50% but shift their position on future rates to a neutral
stance.

**ANY ANSWER ACCEPTED, I SCREWED UP THE QUESTION**

13. The increase in oil prices over the last 18 months have resulted in
   A. **an increase in the U.S. trade deficit.**
   B. an increase in inflation as measured by the core CPI (excluding food and energy).
   C. a significant slowing of the U.S. economy.
   D. much higher long-term interest rates in the U.S.
   E. None of the above.

14. The largest contribution to third quarter U.S. real GDP growth was from
   A. government expenditures
   B. gross private domestic investment
   C. **personal consumption expenditures**
   D. net exports of goods and services
   E. the change in private inventories

15. Initial Jobless Claims for the week ending October 29th (released last Thursday)
   A. were much higher than the consensus estimate.
   B. **returned to a level similar to the average before Hurricane Katrina.**
   C. suggest that the U.S. is now experiencing a labor shortage.
   D. A and C
   E. B and C
16. The October ISM index measuring activity in the non-manufacturing sector
   A. declined sharply but still indicates continued growth in the service sector.
   B. maintained current levels but indicates negative service sector growth.
   C. maintained current levels indicating excessive growth in the service sector.
   D. increased more than expected to a level signaling strong service sector growth.

17. The Labor Department’s data on the Employment Situation for the month of October reported that the official unemployment rate for the U.S. declined to
   A. 4.0%
   B. 4.3%
   C. 4.7%
   D. 5.0%
   E. 5.3%

18. October U.S. non-farm payrolls showed
   A. a surprisingly large gain in the total number of persons employed.
   B. a decline in the total number of persons employed.
   C. net job creation significantly less than the average for the first half of the year.
   D. that Hurricane Katrina has had no cumulative effect on overall employment.

19. Which of the following is not one of the five wild cards discussed in the Business Week article, “Five Wild Cards For 2005”.
   A. Devaluation of the dollar
   B. A change in consumer confidence
   C. Housing bubble burst
   D. Volatility of oil prices
   E. An increase in inflation rates

20. The official U.S. savings rate
   A. is currently negative.
   B. would be higher if education spending was included in the calculation.
   C. would be even lower if research and development (R&D) expenditures were not included.
   D. A and B.
   E. A and C.
   F. A, B, and C.
21. The Economist Article “A Home-Grown Problem” argues that
   A. the ratio of median income to median mortgage payments indicates that housing is overpriced in the U.S.
   B. the property boom has lead to a misallocation of resources.
   C. households tapping home equity (with loans) has resulted in stronger consumption expenditures.
   D. A and B.
   E. A and C.
   F. A, B, and C.

22. The Economist Article “From T-Shirts to T-Bonds” suggests that
   A. China’s purchases of U.S. Treasury securities has raised U.S. long-term interest rates.
   B. China has helped to inflate a global asset price bubble.
   C. China’s removal of its currency peg might cause the U.S. dollar to depreciate against the Euro.
   D. A and B.
   E. A and C.
   F. A, B, and C.

23. According to the Business Week “Business Outlook” column (July 25), slower labor productivity gains could
   A. cause an increase in inflation.
   B. lead to lower income growth.
   C. could cause significant increases in unemployment in the short run.
   D. A and B.
   E. A and C.
   F. A, B, and C.

24. Who did President Bush nominate to be the next Federal Reserve Chairman
   A. Donald Kohn
   B. Martin Feldstein
   C. Samuel Alito
   D. Ben Bernanke
   E. Adam Reed

25. U.S. Existing Home Sales for the month of September
   A. were boosted by hurricane refugees being flushed into neighboring housing markets.
   B. are on pace to exceed 7 million units for the year.
   C. showed a dramatic increase in the inventory of homes on the market.
   D. A and B.
   E. A and C.
   F. A, B, and C.